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December 12, 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

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THE DOMESTIC NONFINANCIAL ECONOMY

Retail sales

Total retail sales increased 0.5 percent in November, according to the advance estimate. Spending at the retail control group of stores (which excludes automotive outlets, gasoline stations, and building supply dealers) increased 0.9 percent, following two months of small changes. Within the retail control grouping, sizable jumps in outlays were reported for furniture and home furnishings (up 2.8 percent) and "other" durables (up 2.1 percent). Spending for apparel edged up, but sales in the general merchandise group fell slightly.

Producer price index

The producer price index for finished goods rose 0.2 percent in November, somewhat less than its average increase over the preceding three months. Food prices edged down 0.1 percent, after a large increase a month earlier. Energy prices were unchanged, as relatively small increases in gasoline and fuel prices were offset by a decline in natural gas prices. Excluding food and energy, the PPI was up 0.3 percent, after surging 0.7 percent in October; much of the slowing between October and November was in motor vehicle prices. So far this year, the PPI for finished goods excluding food and energy has increased at a 2.7 percent annual rate--the same as in 1985. At earlier stages of processing, the prices of intermediate materials (excluding foods and feeds) edged up 0.2 percent in November but were still 4.3 percent below their level of a year ago.

Manufacturing and trade inventories

The book value of manufacturing and trade inventories rose at an annual rate of \$39.2 billion in October. The increase was predominantly the result of accumulation in auto dealers' stocks. Excluding autos, inventories in manufacturing and trade were little changed from the September level.

By sector, manufacturing and wholesale inventories fell in October, but nonauto retail stocks posted an increase of \$18.5 billion, as stocks rose at most types of stores. In particular, inventories at general merchandise, apparel, and furniture stores increased at a \$13.3 billion annual rate in October after rising \$11.7 billion in the preceding month. The two consecutive monthly increases left the inventory-sales ratio for stores in this broad category at 2.34 in October, compared with 2.23 at the end of August. The range of this ratio has been 2.23 to 2.38 during the past 12 months.

RETAIL SALES  
(Seasonally adjusted percentage change)

	1986			1986		
	Q1	Q2	Q3	Sept.	Oct.	Nov.
Total sales	1.1	1.2	4.0	5.6	-5.2	.5
Previous estimate <sup>1</sup>			3.9	5.3	-5.0	—
(REAL) <sup>2</sup>	1.4	2.4	3.1	4.9	-5.3	—
Previous estimate <sup>1</sup>			3.0	4.6	-5.1	—
Total less auto dealers nonconsumer stores, and gasoline stations	1.2	1.4	1.7	.1	.3	.9
Previous estimate <sup>1</sup>			1.6	-.2	.3	—
GAF <sup>3</sup>	1.4	2.7	1.8	-1.2	.1	.6
Durable	1.8	3.5	9.4	14.0	-12.9	.3
Automotive group	.8	4.2	13.5	22.7	-19.9	-.7
Furniture and appliances	1.1	4.2	4.3	.0	-.5	2.8
Other durable goods	.3	1.8	5.3	.3	-.4	2.1
Nondurable	.8	-.2	.7	.1	.4	.7
Apparel	1.5	3.9	1.0	-1.4	-.3	.3
Food	1.4	-.4	.9	1.6	.9	1.1
General merchandise <sup>4</sup>	1.4	1.5	1.1	-1.7	.6	-.2
Gasoline stations	-4.3	-11.5	-4.3	1.2	-.4	.6

1. Based on incomplete sample counts approximately one month ago.

2. General merchandise, apparel, furniture and appliance stores.

3. General merchandise excludes mail order nonstores; mail order sales are also excluded in the GAF grouping.

4. General merchandise excludes mail order nonstores; mail order sales are also excluded in the GAF grouping.

—Data are unavailable because of a future release date.

RECENT CHANGES IN PRODUCER PRICES  
(Percentage change; based on seasonally adjusted data)<sup>1</sup>

	Relative Importance Dec. 1985	1985	1986			1986	
			Q1	Q2	Q3	Oct.	Nov.
			--Annual rate--			--Monthly rate--	
Finished goods	100.0	1.8	-12.5	.4	.7	.3	.2
Consumer foods	24.5	.5	-8.1	5.9	13.0	.9	-.1
Consumer energy	12.5	-.3	-66.9	-22.3	-36.9	-4.3	.0
Other consumer goods	40.3	2.7	2.5	2.0	2.2	.8	.3
Capital equipment	22.7	2.7	.7	2.3	2.2	.5	.3
Intermediate materials <sup>2</sup>	95.3	.0	-11.8	-5.3	-.8	-.3	.2
Exc. energy	79.6	-.1	-1.0	-1.3	2.0	.1	.2
Crude food materials	52.7	-6.4	-24.7	1.6	20.1	2.6	-.2
Crude energy	30.1	-4.9	-51.3	-29.1	-13.3	-.9	-.7
Other crude materials	17.2	-4.3	-.2	7.0	-18.1	1.7	1.6

1. Changes are from final month of preceding period to final month of period indicated.

2. Excludes materials for food manufacturing and animal feeds.

CHANGES IN MANUFACTURING AND TRADE INVENTORIES  
(Billions of dollars at annual rates)

	1986			1986		
	Q1	Q2	Q3	Aug.	Sept. <sup>r</sup>	Oct. <sup>p</sup>
Book Value Basis:						
Total	20.1	2.9	-3.4	-21.0	-24.9	39.2
Manufacturing	-9.3	-4.6	-7.3	-13.7	-10.8	-4.5
Wholesale	4.5	6.9	4.3	-.1	1.6	-15.7
Retail	24.9	.6	-.4	-7.2	-15.7	59.4
Automotive	15.1	-1.4	-12.7	-14.3	-43.8	40.9
Ex. auto	9.8	2.0	12.3	7.0	28.1	18.5
Constant Dollar Basis:						
Total	29.8	1.6	-11.0	-17.3	-41.4	--
Manufacturing	-5.3	1.0	-5.2	-19.0	-6.3	--
Wholesale	6.8	4.6	8.3	10.7	-2.3	--
Retail	28.3	-4.0	-14.0	-8.9	-32.9	--
Automotive	17.2	-1.8	-21.5	-12.4	-50.3	--
Ex. auto	11.0	-2.3	7.5	3.5	17.4	--

INVENTORIES RELATIVE TO SALES<sup>1</sup>

	1986			1986				
	Q1	Q2	Q3	Aug.	Sept. <sup>r</sup>	Oct. <sup>p</sup>		
	Cyclical Reference Points <sup>2</sup>							
Book Value Basis:	81 low	82 high						
Total	1.39	1.54	1.38	1.39	1.36	1.37	1.33	1.36
Manufacturing	1.60	1.77	1.43	1.43	1.42	1.44	1.41	1.41
Wholesale	1.06	1.28	1.20	1.23	1.21	1.22	1.19	1.17
Retail	1.37	1.46	1.47	1.45	1.39	1.42	1.34	1.45
Automotive	1.57	1.90	1.78	1.70	1.39	1.60	1.20	1.62
Ex. Auto	1.31	1.41 <sup>3</sup>	1.38	1.38	1.39	1.37	1.39	1.40
Constant Dollar Basis:								
Total	1.58	1.72	1.55	1.54	1.50	1.52	1.47	--
Manufacturing	1.88	2.04	1.72	1.70	1.69	1.70	1.69	--
Wholesale	1.26	1.45	1.31	1.32	1.29	1.30	1.26	--
Retail	1.38	1.49	1.52	1.48	1.40	1.44	1.35	--
Automotive	1.54	1.90	1.83	1.74	1.33	1.56	1.13	--
Ex. auto	1.31	1.45 <sup>3</sup>	1.44	1.41	1.42	1.41	1.43	--

1. Ratio of end-of-period inventories to average monthly sales for the period.
  2. Highs and lows are specific to each series and are not necessarily coincidental.
  3. Peak occurred in January 1985 for this series.
- r—Revised estimates.  
p—Preliminary estimates.

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

December 12, 1986

	1984:04 to 1985:04		1986				Growth from Q4 1985 to Nov. 1986P
	02	03	Sept.	Oct.	Nov.p		
----- Percentage change at annual rates -----							
1. M1	11.9	15.8	17.3	9.6	14.0	20.9	15.0
2. M2	8.7	10.5	11.1	7.3	10.6	6.6	8.9
3. M3	7.7	9.0	10.2	8.8	6.7	5.6	8.7
Levels in billions of dollars Nov. 1986P							
<b>Selected components</b>							
4. Currency	7.5	6.2	7.1	4.7	10.0	6.6	182.2
5. Demand deposits	8.6	15.2	14.4	1.6	4.1	21.3	298.4
6. Other checkable deposits	22.3	25.6	30.8	25.1	31.3	32.7	226.4
7. M2 minus M1 <sup>2</sup>	7.7	8.7	9.1	6.4	9.4	1.7	2066.7
8. Overnight RPs and Eurodollars, NSA	20.0	-1.8	29.4	-32.2	72.7	-21.8	75.6
9. General purpose and broker/dealer money market mutual fund shares, NSA	9.3	27.3	14.0	10.2	26.7	-0.6	206.6
10. Commercial banks	9.1	5.7	6.3	7.1	4.9	5.7	889.4
11. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	19.0	13.2	18.6	20.6	20.0	18.6	525.5
12. Small time deposits	-0.6	-3.1	-9.0	-10.9	-15.8	-12.4	363.9
13. Thrift institutions	5.1	7.3	5.8	1.2	2.4	2.6	896.1
14. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	13.7	13.8	18.8	10.5	19.5	16.8	405.7
15. Small time deposits	-0.4	2.6	-3.8	-6.0	-11.3	-8.7	490.4
16. M3 minus M2 <sup>4</sup>	3.8	3.4	6.3	14.7	-9.1	1.8	680.5
. Large time deposits	5.7	-1.8	-0.8	-2.1	-10.7	0.5	443.4
. At commercial banks, net <sup>5</sup>	5.1	-8.8	-2.5	-2.6	-9.4	10.3	281.6
9. At thrift institutions	6.8	11.0	2.7	-2.2	-13.0	-16.1	161.8
20. Institution-only money market mutual fund shares, NSA	11.1	39.2	30.9	53.5	1.4	-1.4	84.4
21. Term RPs, NSA	-4.0	19.3	13.6	39.7	1.5	66.1	82.4
22. Term Eurodollars, NSA	-4.9	6.1	-5.0	49.0	-44.1	13.7	79.5
-- Average monthly change in billions of dollars --							
<b>MEMORANDA:</b>							
23. Managed liabilities at commercial banks (24+25)	2.5	-5.5	4.4	4.5	-4.9	3.1	483.7
24. Large time deposits, gross	1.0	-2.6	0.9	-0.4	-2.4	1.0	341.1
25. Nondeposit funds	1.5	-2.9	3.5	4.9	-2.5	2.1	142.6
26. Net due to related foreign institutions, NSA	0.4	-1.7	-0.2	5.3	-2.9	5.4	-22.5
27. Other <sup>6</sup>	1.1	-1.2	3.6	-0.4	0.4	-3.3	165.1
28. U.S. government deposits at commercial banks <sup>7</sup>	0.2	0.9	-0.8	2.9	-2.8	13.3	26.5

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. 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 October and November 1986 at rates of 41.7 percent and 37.9 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during October and November 1986 at rates of 26.5 percent and 27.7 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.

p--preliminary

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

	1986						Levels in bil. of dollars November <sup>P</sup>
	Q1	Q2	Q3	Sept.	Oct.	Nov. <sup>P</sup>	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	9.3	3.9	13.5	13.0	2.2	9.0	2049.3
2. Securities	2.0	4.9	31.9	29.3	3.1	8.9	500.4
3. U.S. government securities	-5.3	7.9	28.4	14.0	21.6	21.6	305.0
4. Other securities	12.8	0.7	37.3	52.4	-23.9	-10.4	195.0
5. Total loans	11.6	3.6	7.8	7.9	1.8	9.1	1549.3
6. Business loans	5.3	2.0	2.8	3.8	4.7	13.3	519.8
7. Security loans	102.7	-62.7	17.9	5.4	-132.4	21.3	40.2
8. Real estate loans	13.1	13.3	13.6	11.4	11.1	14.0	476.3
9. Consumer loans	11.0	6.7	5.6	7.4	3.9	5.4	311.2
10. Other loans	7.3	-1.6	9.2	11.3	-0.5	-7.0	202.2
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	5.2	1.0	2.7	3.1	4.5	13.9	514.7
12. Loans at foreign branches <sup>2</sup>	0.0	-21.5	9.1	13.5	-26.7	0.0	17.6
13. Sum of lines 11 & 12	5.1	0.2	2.9	3.4	3.4	13.4	532.3
14. Commercial paper issued by nonfinancial firms <sup>3</sup>	-14.4	-10.3	10.6	-5.6	23.9	-4.1	86.9
15. Sums of lines 13 & 14	2.1	-1.3	4.0	2.2	6.3	11.0	619.2
16. Bankers acceptances: U.S. trade related <sup>4,5</sup>	-6.2	16.3	3.6	3.6	-10.7	n.a.	33.2 (Oct)
17. Line 15 plus bankers acceptances: U.S. trade related	1.7	-0.3	3.9	2.4	5.4	n.a.	646.8 (Oct)
18. Finance company loans to business <sup>4</sup>	16.4	3.8	-2.5	-15.0	0.0	n.a.	157.5 (Oct)
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	4.6	0.5	2.6	-1.2	4.5	n.a.	804.3 (Oct)

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)

	1984	1985	1986		Change from:		
	Highs	March highs	June highs	FOMC Nov 5	Dec 11	June highs	FOMC Nov 5
<b>Short-term rates</b>							
Federal funds 2/	11.63	8.58	6.90	5.94	5.96	-0.94	0.02
Treasury bills 3/							
3-month	10.67	8.80	6.52	5.26	5.49	-1.03	0.23
6-month	10.77	9.13	6.57	5.36	5.49	-1.08	0.13
1-year	11.13	9.25	6.62	5.43	5.51	-1.11	0.08
Commercial paper							
1-month	11.42	8.94	6.87	5.78	6.03	-0.84	0.25
3-month	11.35	9.12	6.81	5.69	5.90	-0.91	0.21
Large negotiable CD's 3/							
1-month	11.52	8.89	6.88	5.68	6.04	-0.84	0.36
3-month	11.79	9.29	6.91	5.67	5.87	-1.04	0.20
6-month	12.30	9.92	6.97	5.67	5.85	-1.12	0.18
Eurodollar deposits 4/							
1-month	11.89	8.89	7.01	5.85	6.30	-0.71	0.45
3-month	12.20	9.58	7.01	5.84	6.05	-0.96	0.21
Bank prime rate	13.00	10.50	8.50	7.50	7.50	-1.00	-
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	13.49	11.22	7.86	6.45	6.39	-1.47	-0.06
10-year	13.99	12.02	8.39	7.24	7.12	-1.27	-0.12
30-year	13.94	11.97	7.93	7.58	7.38	-0.55	-0.20
Municipal revenue 5/ (Bond Buyer index)	11.44	10.25	8.57	7.30	7.34	-1.23	0.04
Corporate—A utility 6/ Recently offered	15.30	13.23	9.70	9.27	9.05	-0.65	-0.22
Home mortgage rates 6/							
S&L fixed-rate	14.68	13.29	10.76	9.89	9.30	-1.46	-0.59
S&L ARM, 1-yr.	12.31	11.14	8.65	7.98	7.77	-0.88	-0.21
	1984	1985	1986	1986		Percent change from:	
	Lows	March lows	Record highs	FOMC Nov 5	Dec 11	Record highs	FOMC Nov 5
<b>Stock prices</b>							
Dow-Jones Industrial	1086.57	1247.35	1955.57	1899.04	1923.65	-1.63	1.30
NYSE Composite	85.13	102.46	145.75	141.91	142.02	-2.56	0.08
AMEX Composite	187.16	222.28	285.19	267.21	264.73	-7.17	-0.93
NASDAQ (OTC)	225.30	276.18	411.16	362.08	357.73	-12.99	-1.20

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 December 17, 1986.

3/ Secondary market.

4/ Averages for statement week closest to date shown.

5/ Thursday quotes.

6/ Friday quotes.

e—estimate

U.S. Merchandise Trade

The U.S. merchandise trade deficit was \$37.7 billion (\$151 billion at an annual rate) in the third quarter of 1986 on a balance-of-payments basis; this was a slightly larger deficit than recorded in the second quarter (revised). There was a 2 percent increase in imports, mostly from foreign cars, consumer goods, business machines and paper; the value of oil imports was little changed, with a drop in price offset by an 18 percent jump in volume. Exports rose slightly; most of the rise was in agricultural products, especially wheat, cotton, rice and corn.

[Staff note: These revised data are very similar to the estimated figures reported in the December Greenbook.]

U.S. Merchandise Trade  
Billions of dollars, annual rates

	Balance-of-payments basis, seasonally adjusted						Balance	Census Balance Unrevised, NSA CIF Value
	Exports			Imports				
	Total.	Ag.	Nonag.	Total	Oil	Nonoil		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
Years								
1984	220	38	182	332	57	275	-112	-123
1985	215	30	185	339	51	288	-124	-149
Quarters								
1984 - 4	224	37	187	341	57	283	-117	-108
1985 - 1	221	33	188	322	42	280	-100	-125
2	216	30	186	337	55	282	-121	-152
3	210	28	183	337	50	287	-127	-153
4	211	29	182	360	57	304	-149	-164
1986 - 1	215	28	186	360	40	320	-146	-174
2r	221	25	196	363	31	332	-143	-162
3r	221	26	195	372	32	340	-151	-176

Source: U.S. Department of Commerce