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CLASS III - FOMC

July 2, 1987

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

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### THE DOMESTIC NONFINANCIAL ECONOMY

#### Employment and Unemployment in June

Nonfarm employment, as measured by the establishment survey, grew 116,000 after a downward-revised increase of 74,000 in May.<sup>1</sup> Employment in the service-producing sector, which only rose about 100,000 in June, has slowed considerably from the pace in the first part of the year. In June, almost half of the job pickup in the service-producing sector occurred at state and local governments, where 46,000 new jobs were added; a pickup of 47,000 in the services industry, and small gains in finance, insurance, and real estate, and retail trade accounted for the balance of the growth. Employment gains in the goods-producing industry were lackluster as manufacturing employment rose only 4,000; outside of manufacturing, construction employment increased 13,000 and mining fell slightly.

Employment, as measured by the household survey, fell 190,000, but the labor force dropped nearly half a million. As a result, the civilian unemployment rate declined 0.2 percentage points to 6.1 percent. More than two-thirds of the drop in unemployment was the result of fewer young people than normal entering the labor force as of the early June survey week. The jobless rate for teenagers, a particularly volatile series, dropped almost 2 percentage points. Unemployment also declined among adult women, with their rate edging down 0.2 percentage points to 5.2 percent. The unemployment rate for adult men remained unchanged in June.

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1. The downward revision of 60,000 jobs to the May figure was more than accounted for by the service-producing sector which was revised down 68,000. The services industry was revised down 25,000, government 22,000 and retail trade 16,000.

Wage rates, as measured by the hourly earnings index for production and nonsupervisory workers, increased 0.2 percent after remaining flat in May. The small pickup in wages was widespread across industries. Over the past 12 months, the hourly earnings index has risen 2.3 percent for the private nonfarm economy and 1.5 percent in manufacturing.

CHANGES IN EMPLOYMENT<sup>1</sup>  
(Thousands of employees; based on seasonally adjusted data)

	1985	1986	1986 Q4	1987 Q1	1987 Q2	1987		
						Apr.	May	June
--Average monthly changes--								
Nonfarm payroll employment <sup>2</sup>	213	159	176	254	153	269	74	116
Manufacturing	-30	-14	12	8	11	16	14	4
Durable	-22	-17	-2	0	2	-1	4	3
Nondurable	-8	4	14	8	9	17	10	1
Construction	20	13	-4	32	-8	-13	-24	13
Trade	60	31	19	57	31	67	14	13
Finance and services	130	110	101	124	87	116	89	56
Total government	34	30	42	18	22	61	-24	28
Private nonfarm production workers	152	105	106	199	94	156	44	83
Manufacturing production workers	-27	-7	18	6	19	14	14	29
Total employment <sup>3</sup>	162	174 <sup>e</sup>	217	244	296	467	612	-190
Nonagricultural	182	174 <sup>e</sup>	210	203	332	461	567	-33

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.

e--Adjusted by Board staff to eliminate distortions caused by the introduction of revised population estimates.

SELECTED UNEMPLOYMENT RATES  
(Percent; based on seasonally adjusted data)

	1985	1986	1986 Q4	1987 Q1	1987 Q2	1987		
						Apr.	May	June
Civilian, 16 years and older	7.2	7.0	6.9	6.7	6.2	6.3	6.3	6.1
Teenagers	18.6	18.3	17.8	17.9	17.0	17.4	17.7	15.9
20-24 years old	11.1	10.7	10.5	10.4	10.1	10.1	9.8	10.2
Men, 25 years and older	5.3	5.4	5.4	5.2	4.8	4.8	4.9	4.7
Women, 25 years and older	5.9	5.5	5.3	5.1	4.6	4.7	4.7	4.4
White	6.2	6.0	6.0	5.7	5.3	5.4	5.3	5.2
Black	15.1	14.5	14.1	14.2	13.2	13.0	13.8	12.7
Fulltime workers	6.8	6.6	6.5	6.3	5.9	5.9	5.9	5.9
Memo:								
Total national <sup>1</sup>	7.1	6.9	6.7	6.6	6.1	6.2	6.2	6.0

1. Includes resident Armed Forces as employed.

HOURLY EARNINGS INDEX<sup>1</sup>  
 (Percentage change; based on seasonally adjusted data)<sup>2</sup>

	1986	1986	1987		1987		
		Q4	Q1	Q2	Apr.	May	June
		--Annual rate--		--Monthly rate--			
Total private nonfarm	2.3	3.3	2.1	2.6	.3	.1	.2
Manufacturing	1.7	1.4	1.5	2.1	.4	-.4	.2
Durable	1.3	.9	.3	2.1	.5	-.1	.3
Nondurable	2.3	2.3	3.5	2.1	.3	-.9	.2
Contract construction	2.2	6.1	-2.7	3.4	.0	.3	.4
Transportation and public utilities	2.8	3.6	3.2	4.1	.3	.4	.4
Finance, insurance, and real estate	4.4	6.3	9.7	.5	-.2	.1	-.1
Total trade	1.8	2.9	.7	2.4	.4	.3	-.1
Services	3.1	4.7	4.2	3.3	.2	.2	.3

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.

THE FINANCIAL ECONOMY

Monetary Aggregates and Bank Credit in June

Latest data indicate that growth in the monetary aggregates during June was weaker than estimates presented in the Greenbook. M1 is now estimated to have contracted at a 10 percent annual rate in June, with particular weakness in demand deposits. Estimated growth of M2 in June has been reduced to a 1 percent rate, owing to downward revisions in both M1 and the nontransactions component of M2. Downward revisions to savings deposits, overnight RPs and Eurodollars, and MMDAs more than offset an upward revision in small time deposits. M2 growth from the fourth quarter of 1986 to June is now placed at 4 percent. Slower growth in M2 was the principal contributor to a downward revision in M3 growth in June to 6 percent. This change leaves M3 at about the low end of its target range.

Bank credit data for June also have been revised downward. Total loans and investments are now estimated to have expanded at an annual rate of 4 percent. The major revisions among components of bank credit include securities holdings, now estimated to have declined at a 2-1/2 percent annual rate last month, and consumer loans, which now appear to have contracted slightly.

MONETARY AGGREGATES

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

July 2, 1987

	1985:Q4 to 1986:Q4		1987				Growth from Q4 1986 to June 1987 <sup>pe</sup>
	Q1	Q2 <sup>pe</sup>	Apr.	May	June <sup>pe</sup>		
----- Percentage change at annual rates -----							
1. M1	15.3	13.1	6-1/2	17.7	4.5	-10	7-3/4
2. M2	8.9	6.3	2-1/2	6.0	0.6	1	4
3. M3	8.8	6.4	4-1/4	5.9	4.9	6	5-1/2
Levels in billions of dollars May 1987							
<u>Selected components</u>							
4. Currency	7.5	10.1	6-1/2	7.7	8.3	6	190.2
5. Demand deposits	11.6	2.5	1/4	18.8	0.0	-25	304.0
6. Other checkable deposits	28.5	29.7	14-1/4	24.9	7.2	-3	252.3
7. M2 minus M1 <sup>2</sup>	6.9	3.9	1-1/4	2.0	-0.8	5	2086.7
8. Overnight RPs and Eurodollars, NSA	14.7	10.9	-23-3/4	-3.2	-20.8	-16	73.8
9. General purpose and broker/dealer money market mutual fund shares, NSA	17.3	6.2	1-1/4	1.1	-8.5	5	210.3
10. Commercial banks	6.8	6.0	-1-1/4	-1.9	-6.2	4	900.4
11. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	16.0	13.4	1	2.4	-9.4	0	543.3
12. Small time deposits	-4.2	-4.9	-4-1/2	-8.3	-1.3	10	357.1
13. Thrift institutions	4.3	3.9	5-1/2	5.3	2.8	7	911.9
14. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	12.0	14.3	9-3/4	10.0	4.5	1	425.4
15. Small time deposits	-1.2	-4.6	1-3/4	1.2	1.2	12	486.5
16. M3 minus M2 <sup>4</sup>	8.3	6.8	11	5.3	22.6	23	715.6
17. Large time deposits	3.0	2.9	9-1/2	12.0	13.2	15	459.6
18. At commercial banks, net <sup>5</sup>	2.7	9.7	18-1/2	27.7	18.4	19	310.6
19. At thrift institutions	3.4	-9.7	-8-1/2	-19.1	2.4	8	149.0
20. Institution-only money market mutual fund shares, NSA	30.3	0.9	-11-1/2	-25.4	-18.8	-7	81.8
21. Term RPs, NSA	28.3	14.4	55-1/2	86.2	69.9	27	96.3
22. Term Eurodollars, NSA	2.7	38.1	10	-47.1	57.4	43	89.8

-- Average monthly change in billions of dollars --

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	2.0	8.4	5-1/4	2.1	14.2	1	532.1
24. Large time deposits, gross	0.6	2.8	6-1/4	5.7	6.4	7	366.2
25. Nondeposit funds	1.4	5.6	-1	-3.6	7.8	-6	165.9
26. Net due to related foreign institutions, NSA	0.6	4.4	1	-3.6	10.1	-4	0.5
27. Other <sup>6</sup>	0.8	1.2	-2	0.0	-2.3	-2	165.4
28. U.S. government deposits at commercial banks <sup>7</sup>	0.4	-1.2	3-1/2	3.0	5.5	2	26.1

1. Dollar amounts shown under memoranda 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 May and June 1987 at rates of 16.0 percent and 7 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during May and June 1987 at rates of 17.5 percent and 13 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>

July 2, 1987

	1986		1987			Levels in bil. of dollars June <sup>P</sup>	
	Q4	Q1	Q2 <sup>P</sup>	Apr.	May		June <sup>P</sup>
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	8.4	7.0	7.8	11.9	7.4	3.9	2167.7
2. Securities	6.0	2.4	5.3	7.5	11.2	-2.5	516.6
3. U.S. government securities	20.2	5.7	3.8	5.7	16.3	-10.5	317.3
4. Other securities	-14.5	-2.8	7.8	10.4	2.4	10.3	199.3
5. Total loans	9.1	8.4	8.6	13.3	6.3	6.1	1651.2
6. Business loans	18.5	7.6	4.2	4.8	4.1	3.5	557.4
7. Security loans	-39.3	-3.1	36.6	166.1	-44.0	-5.7	41.8
8. Real estate loans <sup>2</sup>	16.3	17.9	19.1	16.1	19.6	20.7	536.9
9. Consumer loans <sup>2</sup>	5.3	2.1	1.3	3.8	0.4	-0.4	315.1
10. Other loans	-20.5	0.0	0.6	15.6	-1.1	-11.9	200.0
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	18.8	8.1	3.4	3.7	3.3	3.1	551.5
12. Loans at foreign branches <sup>3</sup>	-27.3	-2.4	-19.6	36.8	-71.4	-22.8	15.4
13. Sum of lines 11 & 12	17.2	7.9	2.8	4.7	1.1	2.5	567.1
14. Commercial paper issued by nonfinancial firms	-19.1	-13.0	17.6	40.5	28.6	-16.2	80.5
15. Sums of lines 13 & 14	12.3	5.3	4.6	9.0	4.5	0.2	647.6
16. Bankers acceptances: U.S. trade related <sup>4,5</sup>	-16.9	2.5	n.a.	33.9	11.0	n.a.	33.1 (May)
17. Line 15 plus bankers acceptances: U.S. trade related	10.8	5.1	n.a.	10.4	4.8	n.a.	680.7 (May)
18. Finance company loans to business <sup>4</sup>	11.2	14.7	n.a.	16.8	n.a.	n.a.	180.8 (Apr)
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	10.9	7.0	n.a.	11.7	n.a.	n.a.	858.8 (Apr)

n.a.--not available.

p--preliminary.

1. Average of Wednesdays.

2. June growth rates for real estate and consumer loans are adjusted for series breaks caused by earlier reporting errors for home equity loans.

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

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<sup>1</sup>  
(Percent)

	1986		1987			Change from:	
	June highs	Oct. lows	FOMC Mar. 31	FOMC May 19	Jul. 1	FOMC Mar. 31	FOMC May 19
<u>Short-term rates</u>							
Federal funds <sup>2</sup>	6.90	5.75	6.11	6.78	6.70	.59	-.08
Treasury bills <sup>3</sup>							
3-month	6.52	5.04	5.61	5.78	5.64	.03	-.14
6-month	6.57	5.05	5.74	6.27	5.81	.07	-.46
1-year	6.62	5.25	5.78	6.80	6.22	.44	-.58
Commercial paper							
1-month	6.87	5.64	6.39	6.95	6.80	.41	-.15
3-month	6.81	5.60	6.31	7.07	6.86	.55	-.21
Large negotiable CDs <sup>3</sup>							
1-month	6.88	5.59	6.30	6.97	6.80	.50	-.17
3-month	6.91	5.57	6.30	7.15	6.87	.57	-.28
6-month	6.97	5.57	6.31	7.41	7.03	.72	-.38
Eurodollar deposits <sup>4</sup>							
1-month	7.01	5.79	6.38	6.81	7.01	.63	.20
3-month	7.01	5.79	6.36	7.10	7.08	.72	-.02
Bank prime rate	8.50	7.50	7.50	8.25	8.25	.75	--
<u>Intermediate- and long-term rates</u>							
U.S. Treasury (constant maturity)							
3-year	7.86	6.41	6.79	8.27	7.72	.93	-.55
10-year	8.39	7.28	7.51	8.89	8.36	.85	-.53
30-year	7.93	7.53	7.81	9.06	8.49	.68	-.57
Municipal revenue <sup>5</sup> (Bond Buyer index)	8.57	7.30	7.11	8.20	8.16	1.05	-.04
Corporate--A utility Recently offered	9.70	9.32	9.05	10.26e	10.01e	.96	-.25
Home mortgage rates <sup>6</sup>							
S&L fixed-rate	10.76	9.89	9.07	10.48	10.35	1.28	-.13
S&L ARM, 1-yr.	8.65	7.98	7.53	7.87	7.88	.35	.01
	1986		1987		Percent change from:		
	Highs	March highs	FOMC May 19	Jul. 1	March highs	FOMC May 19	
<u>Stock prices</u>							
Dow-Jones Industrial	1955.57	2372.59	2221.28	2409.76	1.57	8.49	
NYSE Composite	145.75	171.08	157.93	170.52	-.33	7.97	
AMEX Composite	285.19	339.31	325.07	337.91	-.41	3.95	
NASDAQ (OTC)	411.16	439.64	408.15	424.46	-3.45	4.00	

1. 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 July 1, 1987.

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--estimate