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November 13, 1981

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

Industrial Production and Capacity Utilization

Industrial production fell 1.5 percent in October, following a revised drop of 1.2 percent in September and a decline of 0.2 percent in August. Again in October, most of the overall reduction in output occurred in durable materials, construction supplies, and autos; declines also occurred in production of most other materials and products.

Output of consumer goods declined 0.9 percent in October, following similar decreases in the two preceding months. Auto assemblies were reduced about 11 percent to an annual rate of 5.5 million units. Production of durable goods for the home was cut 1.1 percent further last month. Output of consumer nondurable goods was reduced 0.4 percent, mainly because of reductions in food and fuel production. Output of business equipment, reflecting large declines in manufacturing, power, and farm equipment, was reduced 0.5 percent--about half of the large reduction that occurred in September; this was the third monthly decline in output of business equipment. Production of defense and space equipment edged up 0.2 percent in October, following average monthly increases of 0.5 percent in the preceding six months. Output of construction supplies was reduced an estimated 3.8 percent further, following a sizable decline last month, and was 10 percent below its recent peak last March.

Materials output dropped 2.3 percent in October. Sharp declines occurred in production of durable materials, particularly metals and parts for consumer durable goods and for equipment, and in production of nondurable materials, as output of textiles, paper, and chemicals was curtailed sharply. Energy materials output also was reduced considerably for the third consecutive month.

Capacity utilization in manufacturing, reflecting the large drop in output, also fell sharply--to 76.9 percent from 78.4 percent in September. The October operating rate for producers of motor vehicles and parts, with auto assemblies declining to a 5.5 million unit annual rate and truck production still at a low rate, dropped to 54.8 percent, only a little above its 1975 low. Utilization rates for several industries were close to 70 percent in October--iron and steel, fabricated metal products, and stone, clay, and glass. Industries with utilization rates somewhat above the average for all of manufacturing included paper, rubber and plastics, food, electrical machinery, and nonferrous metals.

The capacity utilization rate for producers of industrial materials dropped 2 percentage points in October to 78.2 percent, as in the two preceding months a larger decline than in the rate for manufacturing. Large declines in October also were widespread among producers of the various industrial materials. Particularly low, besides iron and steel,

were the operating rates for basic chemicals and parts for consumer durable goods.

Retail Sales

Sales by retail stores declined 1.5 percent in October, according to partial-sample estimates; this drop followed no change in sales in September and a 1.4 percent rise in August. A large falloff occurred in October sales by stores selling automotive products--8.7 percent, and another sizable decline was reported for stores handling building materials and related items. Sales by stores excluding these two groupings edged up 0.2 percent. Sales at food stores rose 1.2 percent to their August level and those at general merchandise stores rose 0.8 percent (making up only about two fifths of their September decline). In contrast, sales at eating and drinking places fell 1.4 percent, and sales at furniture, home furnishings, and equipment stores declined 0.6 percent.

Sales by all retail stores in the third quarter were 2.2 percent above those in the preceding quarter; however, they are estimated to have been about unchanged in real terms. Responding to price rebates and other purchase incentive programs by auto producers and dealers, nominal sales volume by the automotive grouping of stores in the third quarter was 9.8 percent higher than in the second quarter when it declined 5.6 percent. Spending for general merchandise and

for furniture and appliances in the third quarter was 0.1 percent and 0.2 percent, respectively, above that in the second quarter.

Corrigendum:

The following change should be made in the November 10 Greenbook, Part II:

On page II-24, the sentence beginning "Services, which ..." beginning on line 13 should be replaced with this sentence: "The rate of increase in prices of services [excluding energy and homeownership], which did not slow in the first half of this year--in fact it accelerated, accounted for much of this recent acceleration [in the pace for the remaining half of the CPI]."

INDUSTRIAL PRODUCTION
(Percentage change from preceding period;
based on seasonally adjusted data)

	1981			1981		
	Q1	Q2	Q3	Aug.	Sep.	Oct.
	---annual rate---			---monthly rate---		
Total	8.4	1.9	1.6	-.2	-1.2	-1.5
Final products	3.8	7.1	1.1	-.4	-.7	-.7
Consumer goods	1.4	6.3	-1.1	-.7	-.9	-.9
Durable	1.1	14.5	-8.8	-2.7	-1.4	-2.5
Nondurable	1.5	3.4	2.0	.1	-.6	-.4
Business equipment	9.1	9.4	4.0	-.2	-1.0	-.5
Defense and space eq.	2.0	4.1	5.1	.1	.9	.2
Construction supplies	17.8	-7.4	-8.9	-.2	-3.3	-3.8
Materials	13.4	-1.9	2.7	-.1	-1.5	-2.3
Durable goods	19.6	3.7	1.2	.4	-2.4	-3.3
Nondurable goods	6.7	-1.7	-5.7	-.5	-.2	-1.6
Energy materials	8.6	-16.6	23.9	-.8	-1.3	-.8

CAPACITY UTILIZATION RATES: MANUFACTURING AND MATERIALS
(Percent, seasonally adjusted)

	1978-80 High	1980 Low	1981		1981	
			Q2	Q3	Sep.	Oct.
Manufacturing industries	87.2	74.9	79.8	79.3	78.4	76.9
Primary processing	90.1	71.0	80.3	79.4	78.2	76.1
Advanced processing	86.2	77.2	79.6	79.2	78.4	77.4
Motor vehicles & pts.	94.5	51.0	65.5	60.3	58.1	54.8
Materials producers	88.8	73.8	81.2	81.2	80.2	78.2
Durable goods mats.	88.4	68.2	79.0	78.8	77.4	74.8
Raw steel	100.7	55.3	83.7	81.4	80.8	74.9
Nondurable goods mats.	90.9	77.5	85.3	83.3	82.8	81.3
Energy materials	88.8	82.7	81.1	85.2	84.1	83.3

RETAIL SALES
(Percent change from preceding period;
based on seasonally adjusted data)

	1981						
	Q1	Q2	Q3	July	Aug.	Sept.	Oct.
Total sales	4.9	-.4	2.2	.0	1.4	-.1	-1.5
(Real) ¹	2.9	-1.7	.1	-1.0	.6	-.9	--
Total, less autos and nonconsumption items	3.5	1.0	1.0	-.5	.9	.0	.2
Total, exc. auto group, gasoline, and nonconsump- tion items	3.3	1.1	1.2	-.4	1.2	-.3	.2
GAF ²	3.1	1.1	.6	-2.2	2.8	-.9	.4
<u>Durable goods</u>	8.5	-4.1	5.2	.8	2.5	-.1	-5.5
Automotive	10.0	-5.6	9.8	2.5	4.6	-.4	-8.7
Furniture & appliances	4.4	-2.6	.2	-4.0	4.4	.8	-.6
<u>Nondurable goods</u>	3.3	1.3	.9	-.4	.9	.0	.3
Apparel	5.1	-.5	2.5	.3	1.0	.7	.3
Food	2.1	2.3	2.3	.4	2.0	-1.1	1.2
General merchandise ³	1.8	3.2	.1	-2.5	2.9	-2.1	.8
Gasoline	4.9	.1	-.3	-1.1	-.7	2.0	.2

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release.

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

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

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

	1981						Q4 '80
	Q1	Q2	Q3	Aug.	Sept.	Oct.	to Oct. '81
---- Percentage change at annual rates ----							
<u>Money stock measures</u>							
1. M1-A	-20.8	-5.3	-3.7	3.0	-7.6	2.7	-8.1
2. (Adjusted) ²	(-1.7)	(5.1)	(-1.5)	(6.5)	(-5.2)	(3.1)	(0.6)
3. M1-B	4.9	8.7	0.2	7.3	-2.8	3.9	4.2
4. (Adjusted) ²	(-0.8)	(5.3)	(-0.7)	(6.9)	(-4.0)	(3.7)	(1.4)
5. M2	8.3	10.6	7.1	11.6	6.3	9.3	8.9
6. M3	12.4	10.6	10.2	13.4	8.2	6.6	10.9
<u>Selected components</u>							
7. Currency	5.5	7.9	5.0	4.0	-1.0	3.0	5.5
8. Demand deposits	-32.9	-11.8	-8.0	1.5	-11.7	3.6	-14.1
9. Other checkable deposits	372.3	107.4	21.5	31.3	23.7	8.3	180.4
10. M2 minus M1-B (11+12+13+16)	9.4	11.3	9.4	13.0	9.3	11.0	10.5
11. Overnight RPs and Eurodollars, NSA ³	0.0	58.9	12.8	27.6	-110.7	-105.5	2.0
12. Money market mutual fund shares, NSA	84.5	113.7	87.8	99.2	94.9	72.7	127.6
13. Commercial banks	6.0	4.2	6.8	10.8	6.3	10.4	6.4
14. savings deposits	-30.5	-11.9	-19.6	-29.9	-21.7	-19.0	-19.5
15. small time deposits	30.2	13.4	21.0	30.9	20.1	24.0	23.6
16. Thrift institutions	3.5	-0.3	-2.9	-3.9	0.0	4.0	0.3
17. savings deposits	-29.6	-12.6	-23.0	-28.0	-23.3	-17.0	-20.1
18. small time deposits	19.0	4.7	5.1	5.7	8.4	11.5	9.9
19. Large time deposits	39.6	10.3	24.7	26.0	8.1	-4.4	22.5
20. at commercial banks, net ⁴	40.6	10.1	26.6	26.3	5.3	-9.2	22.6
21. at thrift institutions	34.7	11.2	15.1	22.3	24.3	21.4	22.3
22. Term RPs, NSA	18.1	12.2	41.6	5.5	82.4	-25.7	23.9
--Average monthly change in billions of dollars--							
<u>MEMORANDA:</u>							
23. Managed liabilities at commercial banks (24+25)	4.3	8.8	6.4	11.3	0.4	-5.2	6.0
24. Large time deposits, gross	5.1	7.5	7.0	9.5	2.8	-1.5	6.1
25. Nondeposit funds	-0.8	1.3	-0.6	1.8	-2.4	-3.7	-0.1
26. Net due to related foreign institutions, NSA	-1.6	0.5	0.9	4.2	-1.3	-4.6	-0.6
27. Other ⁵	0.7	0.8	-1.5	-2.4	-1.1	0.8	0.5
28. U.S. government deposits at commercial banks ⁶	1.1	-0.3	-0.7	-2.7	-0.3	3.5	0.3

1. Quarterly growth rates are computed on a quarterly average basis.

2. Figures in parentheses have been adjusted to remove the distorting effects since the beginning of 1981 of shifts of funds out of demand deposits and other accounts into NOW accounts. Based on a variety of evidence, it is estimated that 77-1/2 percent of inflows into other checkable deposits--in excess of "trend"--was from demand deposits in January, and 72-1/2 percent in subsequent months.

3. Overnight and continuing contract RPs issued to the nonbank public by commercial banks, net of amounts held by money market mutual funds, plus overnight Eurodollar deposits issued by Caribbean branches of U.S. member banks to U.S. nonbank customers. Excludes retail RPs.

4. Net of large-denomination time deposits held by money market mutual funds and thrift institutions.

5. 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), loans sold to affiliates, loan RPs, and other minor items. Changes since October 1980 are partially estimated.

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

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

	1980		1981				Oct. 80 to Oct. 81 ^e		
	Q3	Q4	Q1	Q2	Q3	Aug.	Sept.	Oct. ^e	
----- Commercial Bank Credit -----									
1. Total loans and investments at banks ²	12.9	14.5	7.8	8.2	9.0	10.1	10.6	8.6	9.8
2. Investments	20.7	11.8	10.5	6.5	3.9	4.9	0.7	8.4	7.9
3. Treasury securities	39.1	11.1	14.8	15.7	-5.7	-10.0	-18.1	0.0	7.8
4. Other securities	11.5	12.3	8.0	1.7	9.1	13.1	10.8	14.5	8.1
5. Total loans ²	10.2	15.5	6.8	8.9	10.8	12.0	14.0	8.5	10.5
6. Business loans ²	15.5	21.0	6.5	11.9	20.2	22.1	18.3	13.3	15.0
7. Security loans	-10.2	60.1	27.3	53.2	-54.5	-132.7	47.5	26.1	19.0
8. Real estate loans	4.6	11.0	9.4	7.3	8.5	10.1	9.2	6.9	9.0
9. Consumer loans	-7.6	-0.2	-1.4	-1.4	0.0	-1.4	1.4	n.a.	n.a.
-- Short- and Intermediate-Term Business Credit --									
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	9.0	14.2	13.7	15.8	26.6	29.6	26.9	n.a.	n.a.
11. Business loans net of bankers acceptances	14.5	24.2	5.6	10.5	22.2	26.0	20.6	12.7	15.4
12. Commercial paper issued by nonfinancial firms ³	-19.7	-6.2	29.5	42.2	59.4	76.7	87.0	6.9	38.6
13. Sum of lines 11 & 12	10.3	20.7	8.2	14.1	26.6	32.0	28.7	11.9	17.9
14. Line 13 plus loans at foreign branches ⁴	9.8	19.3	11.3	14.0	28.4	33.8	30.2	15.7	19.5
15. Finance company loans to business ⁵	-4.6	14.6	8.5	19.3	14.7	15.4	1.5	n.a.	n.a.
16. Total bankers acceptances outstanding ⁵	21.0	-15.7	35.6	23.1	28.9	22.6	33.3	n.a.	n.a.

1. Average of Wednesdays for domestic-chartered banks and average of current and preceding ends of months for foreign-related institutions.

2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.

3. Average of Wednesdays.

4. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestic-chartered banks.

5. Based on average of current and preceding ends of months.

n.a.--not available. e--estimated.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1981				Change from:	
	July High	FOMC Aug. 18	FOMC Oct. 6	Nov. 12	July High	FOMC Oct. 6
<u>Short-term rates</u>						
Federal funds ²	19.93	18.19	15.46	14.01	-5.92	-1.45
Treasury bills						
3-month	15.72	15.72	13.90	10.60	-5.12	-3.30
6-month	15.42	15.62	14.12	11.25	-4.17	-2.87
1-year	14.52	14.74	13.83	11.11	-3.41	-2.72
Commercial paper						
1-month	18.23	18.02	14.84	12.64	-5.59	-2.20
3-month	17.68	17.63	15.07	12.46	-5.22	-2.61
6-month	16.86	17.09	14.97	12.19	-4.67	-2.78
Large negotiable CDs ³						
1-month	18.55	18.14	15.14	12.67	-5.88	-2.47
3-month	18.38	18.08	15.57	12.58	-5.80	-2.99
6-month	18.16	18.20	15.81	12.69	-5.47	-3.12
Eurodollar deposits ²						
1-month	19.49	18.66	16.00	14.05	-5.44	-1.95
3-month	18.91	18.73	17.03	14.25	-4.66	-2.78
Bank prime rate	20.50	20.50	19.00	17.00	-3.50	-2.00
<u>Intermediate- and long-term rates</u>						
U.S. Treasury (constant maturity)						
3-year	15.75	15.99	15.78	12.85	-2.90	-2.93
10-year	14.71	14.79	15.14	13.19	-1.52	-1.95
30-year	13.96	13.95	14.60	13.21	-.75	-1.39
Municipal (Bond Buyer)	11.44	11.94 ⁴	12.93 ⁴	12.44 ⁴	1.00	-.49
Corporate Aaa						
New issue	16.73	—	—	17.17p ⁵	.44	—
Recently offered	16.55	16.63 ⁶	17.72 ⁶	16.80p ⁵	.27	-.92
Primary conventional mortgages	17.11	17.27 ⁶	18.28 ⁶	18.37 ⁶	1.26	.09
	1980	1981			Percent change from:	
	Dec. 31	High	FOMC Oct. 6	Nov. 12	1981 High	FOMC Oct. 6
<u>Stock Prices</u>						
Dow-Jones Industrial	963.99	1,024.05	856.26	860.54	-163.51	4.28
NYSE Composite	77.86	79.14	69.03	71.69	-7.45	2.66
AMEX Composite	348.99	380.36	308.69	325.05	-55.31	16.36
NASDAQ (OTC)	202.34	223.47	185.87	200.99	-22.48	15.12

One-day quotes except as noted.

4. One-day quotes for preceding Thursday.

2. Averages for statement week closest to date shown.

5. Average for preceding week.

3. Secondary market.

6. One-day quotes for preceding Friday.

p--Preliminary.