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January 29, 1982

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

Labor Productivity and Costs

Output per hour for all persons in the nonfarm business sector of the economy tumbled at a 7.6 percent annual rate in the fourth quarter of last year, following a 1.8 percent rate of decline in the preceding quarter. While productivity always falls in the initial stages of a recession, the fourth quarter decline is the most severe in the history of the series (which begins with data for 1947). Over the four quarters of 1981, output per hour in the nonfarm business sector fell 1 percent; the rise during 1980 was 0.2 percent. This weak productivity performance--well below the recent trend of 0.6 percent annually--occurred in a period when nonfarm business output was contracting, on balance, at a 0.7 percent annual rate.

Hourly compensation in this sector increased markedly less in the fourth quarter than for some time--at only a 6.5 percent annual rate (the lowest rate of increase since the third quarter of 1975) from a 10 percent rate rise over the preceding eight quarters. Unit labor cost, reflecting the compensation developments as well as the poor productivity performance, rose at a 15.2 percent annual rate in the fourth quarter and 10.4 percent over the four quarters of 1981. This increase from a year earlier is the largest since the second quarter of 1980.

Collective Bargaining Settlements

Wage rate increases and compensation gains in the first year of major collective bargaining agreements reached in the final quarter of 1981 for unionized workers in the private sector of the economy were smaller than in the preceding two quarters--considerably smaller over the life of the contract. Wage rate increases negotiated for the first year of the contract averaged 9-1/4 percent--down from 11-3/4 percent in the second and third quarters, and for the life of the contract 5-1/2 percent per year--down from around 9-1/2 percent per year in those two quarters. Increases negotiated in the fourth quarter for compensation averaged 11 percent for the first year of the contracts and about 5-1/2 percent per year over the life of the contract, the former down only a little from the average in second and third quarters while the latter dropped sharply. For 1981 as a whole, first-year and over-the-life-of-the-contract settlements exceeded those in 1980, as did first-year agreements for compensation 1981 compensation increases over the life of the contracts averaged only a trifle less than in 1980.

Effective wage rate increases, which reflect provisions of previous settlements and cost-of-living adjustments, as well as current agreements, increased 1.3 percent in the fourth quarter--less than half the increases in the two preceding quarters. For the year as a whole, the effective wage increase averaged 9.1 percent, down from 9.9 percent in 1980.

LABOR PRODUCTIVITY AND COSTS
(Percentage change at compound annual rates;
based on seasonally adjusted data)¹

	1979	1980	1981	1981		
				Q2	Q3	Q4
<u>Output per hour</u>						
Total private business	-.7	.0	-0.1	3.5	-1.1	-7.2
Nonfarm business	-.9	.2	-1.0	1.4	-1.8	-7.6
Manufacturing	.1	1.1	-.8	4.1	1.2	-11.3
<u>Compensation per hour</u>						
Total private business	10.1	10.3	9.3	10.4	9.3	5.7
Nonfarm business	9.9	10.1	9.3	9.6	9.5	6.5
Manufacturing	9.7	12.3	9.8	10.8	9.3	7.5
<u>Unit labor costs</u>						
Total private business	10.9	10.3	9.5	6.6	10.6	14.0
Nonfarm business	10.9	9.9	10.4	8.1	11.5	15.2
Manufacturing	9.6	11.0	10.6	6.5	8.0	21.1

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

NEGOTIATED WAGE-RATE CHANGES
UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS¹

	1979	1980	Same parties as during 1981 under prior settlements	1981
All Industries				
First-year adjustments	7.4	9.5	8.6	10.1
Average over life of contract	6.0	7.1	7.0	8.1
Workers affected (in thousands)	3492	3787	---	2295
Contracts with escalator provisions				
First-year adjustments	6.2	8.0	n.a.	8.2
Average over life of contract	4.6	5.0	n.a.	5.5
Workers affected (in thousands)	2028	2268	n.a.	612
Contracts without escalator provisions				
First-year adjustments	9.1	11.7	n.a.	10.8
Average over life of contract	8.0	10.3	n.a.	9.1
Workers affected (in thousands)	1464	1489	---	1683
<hr/>				
Manufacturing				
First-year adjustments	6.9	7.4	n.a.	7.3
Average over life of contract	5.4	5.4	n.a.	6.3
Workers Affected	1939	1554	---	765
Construction				
First-year adjustments	8.8	13.6	n.a.	13.5
Average over life of contract	8.3	11.5	n.a.	11.3
Workers Affected	462	777	---	594
Non-Manufacturing, Non-Construction				
First-year adjustments	7.6	9.5	n.a.	10.2
Average over life of contract	6.2	6.6	n.a.	7.5
Workers Affected	1091	1456	---	936

1. Contracts covering 1,000 or more workers; estimates exclude potential gains under cost-of-living clauses.

Federal Government Budget and Financing Developments

The Treasury Department's monthly statement for December, released after printing of the Greenbook, showed a considerably larger increase last month in unified budget outlays--primarily in defense spending--than had been suggested by the Treasury's daily statements. [This larger rise suggests that federal government defense purchases of goods and services (GNP component) increased more in the fourth quarter of last year than the very large rise indicated by the preliminary estimates.] Unified budget receipts in December were a little higher than anticipated and the deficit somewhat larger. For the fourth quarter of 1981 as a whole, unified budget outlays totaled \$195.4 billion, receipts were \$147.2 billion, and the deficit was \$48.2 billion--nearly \$2-1/2 billion more than estimated. The combined federal deficit (which includes developments of off-budget activities) totaled \$51.8 billion, \$1.5 billion higher than implied by earlier data, an amount financed by other than borrowing from the public or reducing the Treasury cash balance.

The Treasury announced that it will auction a record \$10 billion of securities in its upcoming mid-quarter refunding, raising nearly \$5.7 billion of new money. Specifically, it will auction \$5 billion of 3-year notes on February 2, \$2-1/2 billion of 10-year notes on February 4, and \$2-1/2 billion of 29-3/4-year bonds on February 5. For the quarter as a whole, the Treasury announced that it intends to raise an unprecedented \$41-1/4 billion in the market, and to end the period with a cash balance of \$10 billion (\$2 billion less than at the end of 1981). The staff currently estimates that the Treasury's marketable borrowing will be only \$38-3/4 billion in the current quarter, and its cash balance will be

\$10-1/2 billion on March 31. The Treasury also stated in its announcement that it expects to raise \$10 to \$15 billion of new money in the second quarter of 1982, with a projected end-of-quarter cash balance of \$15 billion. The amounts are similar to the staff's estimates.

Corrigendum

Part I, page 1-7:

The percentage changes in the fixed-weighted price index for gross domestic business product excluding food and energy over the four quarters ending 1982-Q4 and 1983-Q4 should read 6.4 and 4.8, respectively.

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FEDERAL GOVERNMENT AND SPONSORED AGENCY FINANCING¹
 (Total for period; billions of dollars)

	FY81	1981		1982	
		Dec.	Q4	Jan. ^f	Q1 ^f
<u>Treasury financing</u>					
Combined surplus/deficit(-)	-78.9	-20.5	-51.8	8.0	-28.8
Means of financing deficit:					
(1) Net cash borrowing from the public	79.4	14.3	35.6	10.4	35.8
Marketable borrowings/ repayments(-)	88.9	15.5	37.4	11.0	38.7
Bills	23.0	11.1	21.6	5.9	19.0
Coupons	65.9	4.4	15.8	5.1	19.7
Nonmarketable	-9.5	-1.2	-1.8	-6	-2.9
(2) Decrease in the cash balance	2.3	-4.2	6.7	-9.2	1.5
(3) Other means of finance ²	-2.7	10.4	9.5	-9.2	-8.5
<u>Federally sponsored credit agencies net cash borrowing³</u>	37.5	.3	2.9	--	3.1

f--forecast.

1. Numbers reported on a not seasonally adjusted, payment basis.

2. Includes checks issued less checks paid, accrued items and other transactions.

3. Includes debt of Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and the Federal Farm Credit Bank System.

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

	1981						QIV '80
	Q2	Q3	Q4	Oct.	Nov.	Dec.	to QIV. '81
---- Percentage change at annual rates ----							
<u>Money stock measures</u>							
1. M1	8.6	0.5	5.6	3.3	13.6	11.0	4.9
2. (Adjusted) ²	(5.2)	(-0.4)	(4.6)	(3.1)	(11.4)	(9.6)	(2.1)
3. M2	10.6	7.2	10.6	8.1	17.2	10.9	9.5
4. M3	10.6	10.3	9.8	5.9	13.8	10.1	11.2
<u>Selected components</u>							
5. Currency	7.9	5.0	4.0	3.0	6.9	9.8	5.7
6. Demand deposits	-11.8	-8.0	0.0	1.5	6.1	4.6	-12.7
7. Other checkable deposits	107.4	21.5	26.6	10.0	46.2	36.5	175.2
8. M2 minus M1 (9+10+11+14)	11.3	9.4	12.2	9.7	18.4	10.8	11.0
9. Overnight RPs and Eurodollars, NSA ³	58.9	13.9	-52.7	-124.3	25.5	21.4	3.1
10. Money market mutual fund shares, NSA	113.7	88.2	83.0	71.8	73.6	53.7	129.2
11. Commercial banks	4.2	6.7	10.6	10.9	16.5	5.2	7.1
12. savings deposits	-11.9	-19.6	-10.4	-19.0	13.9	9.2	-17.0
13. small time deposits	13.4	21.0	20.6	24.7	17.3	4.1	23.0
14. Thrift institutions	-0.3	-2.9	1.6	1.8	5.4	2.5	0.5
15. savings deposits	-12.6	-23.0	-11.1	-16.3	0.7	19.9	-17.8
16. small time deposits	4.7	5.1	6.2	8.3	7.0	-3.9	9.0
17. Large time deposits	10.3	25.3	3.1	-4.0	-9.6	7.7	20.8
18. at commercial banks, net ⁴	10.1	27.3	-1.0	-10.1	-16.0	4.4	20.3
19. at thrift institutions	11.2	15.1	24.3	26.2	21.0	22.9	23.0
20. Term RPs, NSA	12.2	43.6	22.3	-17.8	36.2	-5.0	26.1
--Average monthly change in billions of dollars--							
<u>MEMORANDA:</u>							
21. Managed liabilities at commercial banks (22+23)	9.0	6.6	-7.2	-4.7	-2.8	-14.0	3.2
(Adjusted for shifts to IBFs) ⁵			(0.5)			(9.1)	(5.1)
22. Large time deposits, gross	7.5	7.0	-0.9	-1.2	-3.1	1.6	4.7
(Adjusted for shifts to IBFs) ⁵			(-0.7)			(2.3)	(4.7)
23. Nondeposit funds	1.5	-0.4	-6.3	-3.5	0.3	-15.6	-1.5
(Adjusted for shifts to IBFs) ⁵			(1.2)			(6.8)	(0.4)
24. Net due to related foreign institutions, NSA	0.7	1.1	-8.6	-4.5	-1.4	-19.8	-2.1
(Adjusted for shifts to IBFs) ⁵			(-1.8)			(0.6)	(-0.4)
25. Other ⁶	0.9	-1.6	2.3	1.1	1.6	4.2	0.6
(Adjusted for shifts to IBFs) ⁵			(3.0)			(6.2)	(0.8)
26. U.S. government deposits at commercial banks ⁷	-0.3	-0.7	0.5	3.4	-0.4	-1.5	0.2

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly and year over year changes are calculated on an end-month-of-quarter basis.

2. Figures in parentheses have been adjusted to remove the distorting effects during 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 other 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. Numbers in parentheses have been adjusted to remove the effects of shifts of assets and liabilities from domestic banking offices to International Banking Facilities (IBFs).

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

7. Consists of Treasury demand deposits at commercial banks and Treasury note balance.

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

	1981						QIV 80
	Q2	Q3	Q4	Oct.	Nov.	Dec.	to QIV 81
----- Commercial Bank Credit -----							
1. Total loans and investments -at banks ² 3	10.9	6.8	.1 (6.8)	5.7	3.5	-8.9 (11.1)	8.2 (8.8)
(Adjusted for shifts to IBFs)							
2. Investments	7.2	.5	4.6	8.9	1.1	4.2	6.5
3. Treasury securities	13.5	-12.0	-8.1	-7.4	-23.5	6.5	2.6
4. Other securities	4.0	7.2	11.0	16.5	13.1	3.1	8.6
5. Total loans ² 3	12.2	9.0	-1.6 (7.5)	4.6	4.3	-13.5 (13.4)	8.8 (9.6)
(Adjusted for shifts to IBFs)							
6. Business loans ² 3	16.6	17.7	-2.6 (10.6)	10.6	-.3	-18.1 (21.3)	12.6 (13.9)
(Adjusted for shifts to IBFs)							
7. Security loans	28.6	-36.2	58.6	31.4	85.7	51.4	20.9
8. Real estate loans	10.8	8.0	7.0	5.1	5.5	10.2	9.8
9. Consumer loans	1.3	4.4	4.4	1.3	2.0	9.8	3.0
-- Short- and Intermediate-Term Business Credit --							
10. Total short- and intermediate- term business credit (sum of lines 14, 15 and 16)	19.7	23.0	n.a.	10.3	14.7	n.a.	n.a.
11. Business loans net of bankers acceptances 3	16.2	19.6	-2.8 (10.6)	9.2	1.3	-18.9 (21.2)	12.8 (14.0)
(Adjusted for shifts to IBFs)							
12. Commercial paper issued by nonfinancial firms ⁴	39.7	56.0	32.5	7.1	54.3	33.9	40.8
13. Sum of lines 11 & 12 3	19.1	24.4	1.2 (14.3)	8.9	8.0	-15.6 (23.1)	15.8 (16.9)
(Adjusted for shifts to IBFs)							
14. Line 13 plus loans at foreign branches ⁵ 3	18.6	25.6	5.0 (16.6)	12.8	11.8	-9.5 (24.7)	17.6 (18.7)
(Adjusted for shifts to IBFs)							
15. Finance company loans to business ⁶	19.3	14.7	n.a.	3.0	12.2	n.a.	n.a.
16. Total bankers acceptances outstanding ⁶	26.6	16.6	n.a.	3.7	38.6	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. Numbers in parentheses have been adjusted to remove the effects of shifts of assets from domestic banking offices to International Banking Facilities (IBFs).
 4. Average of Wednesdays.
 5. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestic-chartered banks.
 6. Based on average of current and preceding ends of month.
- n.a.--not available.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1981			1982	Change from:	
	Highs	Nov.-Dec.	FOMC	Jan. 28	Nov.-Dec.	FOMC
		Lows	Dec. 22		Lows	Dec. 22
<u>Short-term rates</u>						
Federal funds ²	20.06	12.04	12.43	13.98	1.94	1.55
Treasury bills						
3-month	17.01	9.94	11.03	12.28	2.34	1.25
6-month	15.93	10.34	11.93	12.59	2.25	.66
1-year	15.21	10.42	12.06	12.47	2.05	.41
Commercial paper						
1-month	18.63	11.17	12.65	13.54	2.37	.89
3-month	18.29	11.04	12.65	13.67	2.63	1.02
Large negotiable CDs ³						
1-month	18.90	11.16	12.73	13.68	2.52	.95
3-month	19.01	11.23	13.11	14.00	2.77	.89
6-month	18.50	11.64	13.76	14.37	2.73	.61
Eurodollar deposits ²						
1-month	19.80	11.86	13.23	14.43	2.57	1.20
3-month	19.56	12.16	13.65	15.10	2.94	1.45
Bank prime rate	21.50	15.75	15.75	15.75	0	0
Treasury bill futures						
June 1982 contract	14.46	10.58	12.70	13.08	2.50	.38
Dec. 1982 contract	14.20	11.07	13.01	13.29	2.22	.28
<u>Intermediate- and long-term rates</u>						
U.S. Treasury (constant maturity)						
3-year	16.59	12.54	14.11	14.33	1.79	.22
10-year	15.84	12.92	14.02	14.29	1.37	.27
30-year	15.20	12.76	13.65	13.98	1.22	.33
Municipal (Bond Buyer)	13.44	11.43	13.00 ⁴	13.15	1.72	.15
Corporate--Aaa utility						
Recently offered	17.72	14.52	15.40	15.61p	1.09	.21
S&L fixed-rate mortgage commitment	18.63	16.90	16.90 ⁵	17.61 ⁵	.71	.71
		1981		1982	Percent change from:	
			FOMC		1981	FOMC
	Highs		Dec. 22	Jan. 28	Highs	Dec. 22
<u>Stock Prices</u>						
Dow-Jones Industrial		1,024.05	871.96	864.25	-15.6	-.9
NYSE Composite		79.14	71.27	68.58	-13.3	-3.8
AMEX Composite		380.36	318.49	292.59	-23.1	-8.1
NASDAQ (OTC)		223.47	195.64	186.22	-16.7	-4.8

One-day quotes except as noted.

4. One-day quotes for preceding Thursday.

Averages for statement week closest to date shown. 5. One-day quotes for preceding Friday.

3. Secondary market.

p--Preliminary.