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May 18, 1984

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

THE DOMESTIC NONFINANCIAL ECONOMY

Gross National Product

Real GNP grew at an 8.8 percent annual rate in the first quarter, according to revised estimates released by the Commerce Department on Friday. This represents an upward revision from the preliminary estimate of 8.3 percent; however, there were more sizable upward revisions to personal consumption and inventory investment, which were largely offset by an increase in the estimate of imports. Prices, as measured by the gross domestic business product fixed-weighted price index, rose 4.1 percent, the same as the preliminary estimate. However, the estimate of the increase in the GNP deflator was lowered from 4.1 percent to 3.7 percent.

Real personal consumption expenditures were revised up by \$3 billion, largely reflecting higher estimates of electricity usage and an increase in the share of used car purchases attributed to households rather than businesses. The growth rate of consumption in the first quarter now is estimated as 6.9 percent, compared with 6.5 percent in the fourth quarter.

Real business fixed investment now is estimated to have increased at a 15 percent annual rate in the first quarter, compared with 12 percent shown in the preliminary figures. The revision is due primarily to an increase in the estimate of imports of producers' durable equipment.

Real inventory investment by nonfarm businesses was revised up by \$3.5 billion, reflecting the most recent surveys of inventories in the manufacturing and trade sectors. The increase in the rate of nonfarm

inventory accumulation now accounts for almost half of the growth in real GNP in the first quarter.

The most sizable downward revision to the GNP figures was in real net exports of goods and services, which now are estimated to be in deficit at a rate of \$10.3 billion, compared with a deficit at a rate of \$6.5 billion shown in the preliminary estimate. The change reflects recent merchandise trade data.

The latest GNP release contains the Commerce Department's initial estimate of corporate profits for the first quarter. Profits increased 15 percent at an annual rate from the fourth quarter, and the share of pre-tax profits in GNP remained at 7.8 percent.

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REAL GROSS NATIONAL PRODUCT AND RELATED ITEMS IN 1984-Q1
(Percent change from previous period at compound annual rates;
based on seasonally adjusted data)

	"Flash"	Preliminary	Revised
1. Gross national product	7.2	8.3	8.8
2. Final sales	3.9	3.6	3.2
a. Private	5.0	4.7	4.4
b. Excluding net exports	7.2	7.8	8.8
3. Personal consumption expenditures	5.6	5.8	6.9
4. Business fixed investment	13.7	12.1	14.6
5. Residential investment	16.7	31.3	25.7
6. Government purchases	.0	-.8	-2.2
7. Exports	12.2	9.7	7.4
8. Imports	34.9	41.7	53.7

ADDENDA:			
9. Change in total business inventories ¹	21.4	26.6	30.1
a. Nonfarm ¹	11.1	18.0	21.5
b. Farm ¹	10.4	8.6	8.6
10. Net exports ¹	-3.8	-6.5	-10.3
11. Nominal GNP	12.0	12.8	12.8
12. GNP implicit price deflator	4.4	4.1	3.7
13. Gross domestic business product fixed-weighted price index	4.5	4.1	4.1
14. Saving rate (percent)	5.8	6.1	5.8

1. Level, billions of constant dollars.

SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Personal Income

Personal income rose at a \$14.8 billion annual rate in April, about the same as in March, but somewhat less than the average increase in over the previous six months. Wage and salary growth spurted to a \$21 billion rate following gains of around \$7 billion in February and March. However, farm income dropped sharply in April, reflecting the end of payments under the PIK program. Personal outlays, which are computed in part from retail sales data, increased at a \$26 billion annual rate in April; there was an \$8 billion rise in service consumption as well as increases in spending for durable and nondurable goods. The saving rate in April is estimated to have been 5.8 percent, the same as the average rate in the first quarter. Previously, the first quarter saving rate was reported to be 6.1 percent.

PERSONAL INCOME AND EXPENDITURES
(Based on seasonally adjusted data)

	1982	1983	1983		1984			
			Q3	Q4	Q1	Feb.	Mar.	Apr.
- - Percentage changes at annual rates ¹ - -								
Total Personal Income								
Nominal	4.6	7.7	7.3	11.1	13.4	8.6	6.1	6.0
Real ²	-.3	4.2	3.0	8.1	9.6	8.6	.0	--
Disposable Personal Income								
Nominal	5.1	8.8	11.0	11.0	13.9	8.8	6.4	4.8
Real	.2	5.2	6.5	8.0	10.1	8.8	.8	--
Expenditures								
Nominal	7.5	9.0	6.5	9.4	10.6	-12.7	4.3	13.6
Real	2.5	5.4	2.2	6.5	6.9	-12.7	-1.3	--
- - Changes in billions of dollars ³ - -								
Total personal income	10.6	17.9	16.3	26.0	27.6	20.9	14.9	14.8
Wages and salaries	5.1	11.2	10.3	11.4	12.4	8.4	6.2	20.8
Private	3.4	9.7	8.8	9.9	10.1	6.8	4.8	19.4
Manufacturing	-.6	3.7	4.0	2.8	4.7	3.9	2.0	6.2
Other income	6.0	7.5	6.6	15.2	17.2	12.9	9.0	-4.8
Farm proprietors	-8.9	-.6	-1.4	5.1	5.4	1.9	-3.0	-15.6
Disposable personal income	10.0	17.2	21.9	22.2	24.7	18.3	13.4	10.1
Expenditures	12.0	16.0	10.0	19.1	11.0	-24.3	8.1	25.8
Durables	2.5	4.3	-.3	9.7	-.8	-9.4	-2.8	4.2
Nondurables	1.9	4.0	3.2	1.4	5.4	-12.9	-1.8	13.7
Services	7.6	7.8	7.1	8.1	6.3	-1.9	12.7	7.9
Personal saving rate (percent)	5.8	4.9	4.9	5.2	5.8	6.3	6.5	5.8

1. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Changes for quarterly periods are compounded rates of change; monthly changes are not compounded.

2. Total personal income is deflated by the personal consumption expenditure deflator.

3. Average monthly changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.

SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Congressional Budget Plans

The Senate approved a spending reduction plan on May 17 to accompany the tax measure passed earlier. Together, the Senate actions would reduce deficits about \$142 billion over the fiscal 1985-1987 period. The House budget resolution passed earlier would lower deficits \$182 billion over the same period. The House and Senate plans include similar size increases in taxes, but on the spending side there are major differences in the limits proposed for defense and domestic outlays. These differences need to be considered by a conference committee probably after the Memorial day recess. In addition, some specific spending reductions need to be implemented later in the summer through the appropriation process.

PROJECTED DEFICITS UNDER HOUSE
AND SENATE PLANS

(Unified basis, billions of dollars)

	Fiscal Year		
	1985	1986	1987
House	175	172	182
Senate	182	186	204

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

May 18, 1984

	1983			1984			Growth from Q4 1983 to Apr. 1984
	Q2	Q3	Q4	Q1	Mar.	Apr.	
---- Percentage change at annual rates ----							
1. M1	11.6	9.5	4.8	7.2	5.8	8.8	5.4
2. (M1)	(12.7)	(7.9)	(4.6)	(8.8)	(8.1)	(2.0)	(7.0)
3. M2	18.6	6.9	8.5	6.8	3.7	7.2	6.6
4. M3	9.3	7.4	9.9	8.9	9.8	18.8	9.5
Levels in bill. of dollars Apr. 1984							
Selected components							
5. Currency	18.2	9.1	9.7	8.7	5.6	7.2	151.8
6. Demand deposits	4.2	4.8	-8.5	1.2	1.8	5.9	245.2
7. Other checkable deposits	28.5	21.2	9.6	16.2	13.5	-19.5	133.1
8. M2 minus M1 3	18.2	6.1	9.6	6.7	3.2	9.5	1787.0
9. Overnight RPs and Eurodollars, NSA 4	48.8	-8.1	23.4	14.3	-38.7	-16.8	56.2
10. General purpose and broker/dealer money market mutual fund shares, NSA	-44.4	-13.1	-1.2	9.8	22.8	18.8	146.1
11. Commercial banks	18.4	12.2	12.4	5.4	6.2	7.8	729.6
12. Savings deposits, SA, plus MUDAs, NSA 5	62.8	11.8	5.9	6.5	18.1	7.4	373.8
13. Small time deposits	-21.2	13.7	19.3	4.4	2.4	7.5	355.7
14. Thrift institutions	11.9	7.3	7.3	6.5	6.5	7.1	781.2
15. Savings deposits, SA, plus MUDAs, NSA 5	53.8	1.8	-7.8	-8.6	9.3	4.8	328.8
Small time deposits	-17.8	12.3	18.8	11.8	4.8	9.1	453.3
. M3 minus M2 6	3.8	9.8	16.3	18.1	31.4	25.9	548.5
18. Large time deposits	-8.3	11.9	15.5	24.4	27.5	25.9	355.2
19. At commercial banks, net 7	-14.6	-4.6	-8.4	9.8	23.1	19.1	236.3
20. At thrift institutions	51.2	63.5	57.6	58.2	36.5	39.6	118.9
21. Institution-only money market mutual fund shares, NSA	-41.7	-17.8	16.6	18.9	5.8	8.8	41.8
22. Term RPs, NSA	48.4	15.2	58.8	17.6	28.7	58.2	58.4
23. Term Eurodollars, NSA	28.9	-1.7	-1.3	18.5	53.1	8.7	97.4
--Average monthly change in billions of dollars--							
MEMORANDA:							
24. Managed liabilities at commercial banks (25+26)	8.8	-2.8	5.2	4.7	9.8	6.2	403.6
25. Large time deposits, gross	-4.0	-2.8	8.1	2.9	5.3	3.2	292.2
26. Nondeposit funds	4.8	-8.8	5.1	2.7	4.5	3.8	111.4
27. Net due to related foreign institutions, NSA	2.4	1.2	2.9	2.1	4.8	3.8	-33.5
28. Other 8	1.6	-2.8	2.1	8.7	-8.3	8.8	144.9
29. U. S. government deposits at commercial banks 9	8.3	1.8	-1.2	1.2	-3.9	-8.8	15.9
<p>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 quarterly basis.</p> <p>2. M1 seasonally adjusted using an experimental model-based procedure applied to weekly data.</p> <p>3. Nonrestitutions M2 is seasonally adjusted as a whole.</p> <p>4. Overnight and continuing contract RPs issued to the nonbank public by commercial banks plus overnight Eurodollar deposits issued by branches of U. S. banks to U. S. nonbank customers, both net of amounts held by money market mutual funds. Excludes retail RPs, which are in the small time deposit component.</p> <p>5. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MUDAs), not, seasonally adjusted. Commercial bank savings deposits excluding MUDAs declined during February, March, and April, at rates of 18.2, 11.1, and 2.8 percent respectively. At thrift institutions, savings deposits excluding MUDAs declined during February at a rate of 8.8 percent, and increased in March and April at rates of 8.7 and 8.7 percent respectively.</p> <p>6. The non-M2 component of M3 is seasonally adjusted as a whole.</p> <p>7. Net of large-denomination time deposits held by money market mutual funds and thrift institutions. 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, loans RPs and other minor items. Data are partially estimated.</p> <p>8. Consists of Treasury demand deposits at commercial banks and Treasury note balances.</p>							

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

	1983		1984 ²				Levels in bil. of dolla April ^P 1984
	Q3	Q4	Q1	Feb.	Mar.	April ^P	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks ³	8.6	12.8	14.1	15.9	13.3	5.6	1634.6
2. Securities	6.3	10.8	4.6	-0.5	-0.3	-8.2	437.3
3. Treasury securities	13.6	25.1	-1.9	-2.5	-7.6	-6.4	186.1
4. Other securities	1.5	0.6	9.5	1.4	4.7	-9.4	251.2
5. Total loans ³	9.5	13.5	17.6	22.1	18.4	10.4	1197.3
6. Business loans ³	7.6	9.4	18.9	15.2	29.2	7.5	438.4
7. Security loans	25.1	60.8	-1.5	144.0	-140.3	-17.6	26.8
8. Real estate loans	11.6	11.4	13.4	12.4	12.9	15.6	351.2
9. Consumer loans	15.8	23.1	21.5	17.1	19.5	19.7	235.3
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	7.4	9.7	18.1	14.7	27.3	7.1	428.8
11. Commercial paper issued by non- financial firms ⁴	-2.7	25.9	20.1	30.7	49.9	91.0	53.9
12. Sum of lines 10 & 11	6.4	11.3	18.3	16.5	29.3	15.6	482.7
13. Line 12 plus loans at foreign branches ⁵	6.1	11.5	18.1	15.6	28.4	16.5	502.0
14. Finance company loans to business ⁶	17.8	29.0	28.8	27.5	20.8	n.a.	n.a.
15. Total bankers acceptances outstanding ⁶	20.5	18.9	-22.2	-24.1	0.0	n.a.	n.a.
16. Total short- and intermediate- term business credit (sum of lines 13, 14 and 15)	9.3	14.8	14.8	12.9	24.2	n.a.	n.a.

p--preliminary

n.a.--not available.

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

2. Growth rates beginning 1984 have been estimated after adjusting for major changes in reporting panels and definitions that caused breaks in series at the beginning of January. Data should be regarded as highly preliminary.

3. 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.

4. Average of Wednesdays.

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

6. Based on average of current and preceding ends of month.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1982		1983	1984			Change from:	
	Highs	FOMC Dec. 21	Spring lows	FOMC Jan. 30	FOMC Mar. 27	FOMC May 17	FOMC Jan. 30	FOMC Mar. 27
<u>Short-term rates</u>								
Federal funds ²	15.61	8.69	8.48	9.41	9.97	10.52	1.11	.55
Treasury bills								
3-month	14.57	7.90	7.96	8.89	9.78	9.78	.89	--
6-month	14.36	8.01	7.97	8.97	9.89	10.30	1.33	.41
1-year	13.55	8.11	7.95	9.00	9.89	10.62	1.62	.73
Commercial paper								
1-month	15.73	8.48	8.17	9.14	10.01	10.48	1.34	.47
3-month	15.61	8.43	8.13	9.13	10.05	10.80	1.67	.75
Large negotiable CDs ³								
1-month	15.94	8.59	8.26	9.23	10.18	10.76	1.53	.58
3-month	16.14	8.62	8.26	9.31	10.32	11.26	1.95	.94
6-month	16.18	8.78	8.29	9.43	10.56	11.82	2.39	1.26
Eurodollar deposits ²								
1-month	16.36	9.44	8.68	9.53	10.45	11.15	1.62	.70
3-month	16.53	9.56	8.71	9.70	10.68	11.83	2.13	1.15
Bank prime rate	17.00	11.50	10.50	11.00	11.50	12.50	1.50	1.00
Treasury bill futures								
June 1984 contract	13.50	8.25	8.49	9.27	10.06	10.41	1.14	.35
Dec. 1984 contract	9.78	8.98	8.89	9.85	10.64	11.50	1.65	.86
<u>Intermediate- and long-term rates</u>								
U.S. Treasury (constant maturity)								
3-year	15.16	9.87	9.36	10.88	11.83	12.83	1.95	1.00
10-year	14.95	10.54	10.12	11.66	12.46	13.54	1.88	1.08
30-year	14.80	10.53	10.27	11.74	12.50	13.57	1.83	1.07
Municipal revenue (Bond Buyer index)	14.32	10.81 ⁴	9.21	9.95 ⁴	10.39 ⁴	10.82	.87	.43
Corporate--A utility Recently offered	17.47	12.90 ^e	11.64	12.90 ^e	13.80 ^e	14.89 ^e	1.99	1.09
Home mortgage rates								
S&L fixed-rate	17.66	13.63 ⁵	12.55	13.29 ⁵	13.48 ⁵	13.87 ⁵	.58	.39
FNMA ARM, 1-yr.	17.41	11.13 ⁵	10.54	11.40 ⁵	12.10 ⁵	12.70 ⁵	1.30	.60
	<u>1982</u>	<u>1983</u>	<u>1984</u>			<u>Percent change from:</u>		
	<u>Lows</u>	<u>Highs</u>	<u>FOMC</u>	<u>FOMC</u>	<u>FOMC</u>	<u>1983</u>	<u>FOMC</u>	
			<u>Jan. 30</u>	<u>Mar. 27</u>	<u>May 17</u>	<u>highs</u>	<u>Jan. 30</u>	
<u>Stock prices</u>								
Dow-Jones Industrial	776.92	1287.20	1221.52	1154.31	1142.27		-11.3	-6.5
Dow Jones Composite	58.80	99.63	94.12	90.55	90.07		-9.6	-4.3
NASDAQ Composite	118.65	249.06	217.53	209.19	206.61		-17.0	-5.0
NASDAQ (OTC)	159.14	328.91	269.23	249.10	246.12		-25.2	-8.6

1. One-day quotes except as noted.

2. Averages for statement week closest to date shown.

3. Secondary market.

4. One-day quotes for preceding Thursday.

5. One-day quotes for preceding Friday.

e--estimated. p--preliminary.

INTERNATIONAL DEVELOPMENTS

Foreign Economic Developments

In France provisional data indicate that real GDP increased by 0.4 percent (s.a.) in the first quarter due mainly to an increase in inventories. The unemployment rate increased for the seventh consecutive month in April, rising to 9.8 percent from 9.6 percent in March. Consumer prices increased by 0.6 percent (n.s.a.) in April, near the pace of the first three months of the year, as the year-over-year inflation rate eased to 7.9 percent.

Industrial production in the United Kingdom fell 1.4 percent (s.a.) in March after declining 1.7 percent in February. As a result, the average level of production in the first quarter was essentially unchanged from that in the fourth quarter of last year. U.K. government sources attribute the decrease to the coal miner's strike and stated that without the effects of the strike, industrial production would have risen slightly in March.

U.K. consumer price inflation remained steady through April. In that month the retail price index was 5.2 percent above its year-earlier level, equal to the equivalent figure observed on average in the first quarter of the year.

Canadian consumer prices increased .2 percent in April or 4.9 percent above April of last year. This year-over-year increase compares with an average increase of 5.2 percent in the first quarter relative to the first quarter of last year.