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July 3, 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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## SUPPLEMENTAL NOTES

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### THE DOMESTIC NONFINANCIAL ECONOMY

#### Employment and Unemployment

Nonfarm payroll employment, after adjusting for strike activity at AT&T and Alcoa<sup>1</sup>, grew slowly again in June. Last month's increase of 80,000 follows a downward revised gain of 125,000 in May. Factory layoffs continued in June, particularly in the metals and machinery industries, and another 16,000 jobs were lost in oil and gas extraction. In construction, where hiring surged 135,000 in April, employment levelled off in May and retreated 30,000 in June. This pattern apparently reflects the fact that homebuilding strengthened earlier in the season than is usually the case. Elsewhere, service industries posted a particularly large employment increase last month; however, hiring at retail establishments was markedly slower than earlier in the year.

The June household survey, which can be affected by sizable seasonal swings in labor force activity, reported a considerably larger over-the-month rise in employment than shown in the payroll survey. The bulk of the 560,000 increase in total employment occurred among adult women, as fewer than usual apparently left the labor force last month. The civilian unemployment rate in June fell back to its April level of 7.1 percent. Compared with April, jobless rates last month were somewhat lower for younger workers (16 to 24 years), but higher for adult men.

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1. The industry distribution of the increased strike activity at AT&T and Alcoa was: 90,000 in communications and 40,000 each in manufacturing and wholesale trade.

The hourly earnings index for production workers rose 0.4 percent in June, bringing the average increase the second quarter to just 2 percent at an annual rate.

#### Auto Sales

Unit sales of domestic autos averaged 8.3 million units (annual rate) in June, about in line with the pace that has prevailed since incentive programs were expanded in late April.

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

	1984	1985	1985	1986		1986		
			Q4	Q1	Q2	Apr.	May	June
—Average monthly changes—								
Nonfarm payroll employment <sup>2</sup>	332	230	261	191	112	299	125	-89
Strike adjusted	334	229	260	184	166	296	124	79
Manufacturing	44	-18	30	-11	-37	-10	-45	-56
Durable	42	-16	13	-14	-34	-3	-37	-61
Nondurable	3	-2	17	3	-3	-7	-8	5
Mining	-1	-4	-5	-16	-28	-31	-33	-16
Construction	34	21	20	17	36	134	4	-30
Trade	102	65	55	79	25	46	56	-28
Finance and services	114	122	123	98	147	162	115	164
Total government	24	38	31	23	5	12	32	-28
Private nonfarm production workers	236	159	191	135	70	251	69	-109
Manufacturing production workers	27	-18	24	-13	-22	-1	-34	-30
Total employment <sup>3</sup>	269	163	229	194 <sup>e</sup>	295	104	218	563
Nonagricultural	265	183	184	149 <sup>e</sup>	335	167	280	558

- e = estimated; adjusted for the introduction of revised population estimates.  
 1. Average change from final month of preceding period to final month of period.  
 2. Survey of establishments. Strike-adjusted data noted.  
 3. Survey of households.

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

	1984	1985	1985	1986		1986		
			Q4	Q1	Q2	Apr.	May	June
Civilian, 16 years and older	7.5	7.2	7.0	7.1	7.2	7.1	7.3	7.1
Teenagers	18.9	18.6	19.0	18.5	19.2	19.6	19.0	19.1
20-24 years old	11.5	11.0	10.8	10.6	11.1	10.9	11.7	10.7
Men, 25 years and older	5.7	5.3	5.2	5.3	5.4	5.2	5.4	5.5
Women, 25 years and older	6.0	5.9	5.5	5.7	5.7	5.8	5.7	5.7
White	6.5	6.2	6.0	6.1	6.2	6.1	6.2	6.1
Black	15.9	15.1	15.1	14.6	14.9	14.8	14.8	15.1
Fulltime workers	7.2	6.9	6.7	6.7	6.8	6.7	7.0	6.7
Memo:								
Total national <sup>1</sup>	7.4	7.1	6.9	7.0	7.1	7.0	7.2	7.0

1. Includes resident Armed Forces as employed.

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

	1985	1985		1986		1986		
		Q3	Q4	Q1	Q2	Apr.	May	June
		----Annual rate----				--Monthly rate--		
Total private nonfarm	3.0	2.4	3.2	2.7	1.9	-.1	.2	.4
Manufacturing	3.3	2.6	2.4	2.3	2.6	.1	.3	.1
Durable	3.4	2.7	2.4	2.3	2.7	.2	.1	.2
Nondurable	3.1	2.3	2.5	2.2	2.3	.0	.5	.1
Contract construction	1.4	.5	.8	-2.8	4.2	1.0	.3	.2
Transportation and public utilities	3.0	3.4	3.3	2.8	1.2	-.5	.3	.7
Finance, insurance, and real estate	4.2	2.9	6.1	8.0	4.7	-.2	.4	1.1
Total trade	2.0	1.7	2.8	1.8	.0	-.1	-.1	.4
Services	4.1	3.3	4.9	5.0	1.7	-.5	.1	.7

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.

## MONETARY AGGREGATES

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

July 3, 1986

	1984:Q4	1986					Growth from Q4 1985 to June 1986 <sup>pe</sup>
	to 1985:Q4	Q1	Q2 <sup>pe</sup>	Apr.	May	June <sup>pe</sup>	
----- Percentage change at annual rates -----							
1. M1	11.9	7.7	15-3/4	14.5	23.2	15	12-3/4
2. M2	8.6	4.3	10-1/4	13.7	12.0	9	7-3/4
3. M3	7.6	7.4	8-1/4	10.7	6.8	7	7-3/4
Levels in billions of dollars May 1986							
<b>Selected components</b>							
4. Currency	7.5	7.5	6-1/4	3.5	9.6	6	175.8
5. Demand deposits	8.6	3.0	15-1/2	11.0	25.7	15	281.6
6. Other checkable deposits	22.3	15.0	25-3/4	30.5	32.9	24	195.1
7. M2 minus M1 <sup>2</sup>	7.6	3.2	8-1/2	13.5	8.4	7	1988.5
8. Overnight RPs and Eurodollars, NSA	18.9	3.6	-13-3/4	10.9	-10.8	-80	66.3
9. General purpose and broker/dealer money market mutual fund shares, NSA	9.3	10.9	27-3/4	33.5	12.5	27	193.4
10. Commercial banks	9.1	7.2	5-3/4	5.9	4.2	7	862.2
11. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	19.0	8.7	13	13.6	15.5	21	477.4
Small time deposits	-0.6	5.3	-3-1/4	-3.4	-9.6	-10	384.8
Thrift institutions	5.1	4.3	7-1/2	8.9	6.5	8	878.2
14. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	13.7	1.3	14	12.9	21.4	25	371.8
15. Small time deposits	-0.4	6.6	2-3/4	5.9	-4.3	-5	506.4
16. M3 minus M2 <sup>4</sup>	3.7	20.1	1/2	-0.9	-13.7	-1	660.2
17. Large time deposits	5.7	15.5	-2	4.3	-15.4	-4	446.2
18. At commercial banks, net <sup>5</sup>	5.1	18.5	-9	-0.4	-23.4	-4	281.4
19. At thrift institutions	6.8	10.0	10-3/4	11.8	-1.5	-3	164.8
20. Institution-only money market mutual fund shares, NSA	11.1	26.8	39-1/4	66.7	32.4	-17	76.1
21. Term RPs, NSA	-4.6	44.1	-8-3/4	-32.3	-5.2	-28	68.4
22. Term Eurodollars, NSA	-4.9	6.2	5-1/2	-17.6	-11.9	-2	79.9

-- Average monthly change in billions of dollars --

## MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	2.3	7.7	-7	-8.7	-5.3	-7	472.9
24. Large time deposits, gross	1.0	3.4	-2-3/4	-0.8	-6.6	-1	340.3
25. Nondeposit funds	1.3	4.3	-4-1/4	-7.9	1.3	-6	132.6
26. Net due to related foreign institutions, NSA	0.3	2.4	-1-3/4	-6.9	4.2	-3	-22.2
27. Other <sup>6</sup>	1.0	2.0	-2-1/4	-1.0	-2.9	-3	154.8
28. U.S. government deposits at commercial banks <sup>7</sup>	0.2	-0.6	1/4	1.7	3.9	-5	21.3

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 May and June 1986 at rates of 1.8 percent and 2.0 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during May and June 1986 at rates of 31.2 percent and 29 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 3, 1986

	1985	1986				Levels in	
	Q4	Q1	Q2 <sup>P</sup>	Apr.	May	June <sup>P</sup>	bil. of dollars June <sup>P</sup>
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	11.5	9.3	3.7	2.0	5.4	3.7	1962.8
2. Securities	19.9	2.0	4.9	-1.9	10.4	6.1	458.3
3. U.S. government securities	-3.5	-5.3	7.6	2.2	18.2	2.2	274.6
4. Other securities	62.5	12.8	0.9	-7.9	-1.3	11.9	183.7
5. Total loans	8.9	11.6	3.4	3.2	3.9	3.1	1504.6
6. Business loans	5.3	4.6	2.1	4.0	-2.6	4.7	508.7
7. Security loans	4.0	101.7	-64.4	-57.3	-40.1	-106.3	42.2
8. Real estate loans	12.6	13.0	13.0	12.7	15.2	10.8	450.3
9. Consumer loans	8.5	11.0	6.5	6.4	6.8	6.3	304.4
10. Other loans	10.2	7.3	-1.6	-9.0	1.8	2.4	199.0
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.0	5.2	1.0	3.1	-3.8	3.6	503.5
12. Loans at foreign branches <sup>2</sup>	-16.5	2.2	-21.4	-12.8	-19.5	-33.0	17.7
13. Sum of lines 11 & 12	5.1	5.1	0.1	2.5	-4.4	2.1	521.1
14. Commercial paper issued by nonfinancial firms <sup>3</sup>	55.5	-14.4	-8.9	-40.7	-2.9	17.5	83.6
15. Sums of lines 13 & 14	11.8	2.2	-1.1	-3.4	-4.2	4.2	604.7
16. Bankers acceptances: U.S. trade related <sup>4,5</sup>	-30.8	-6.2	n.a.	3.8	18.8	n.a.	32.5 (May)
17. Line 15 plus bankers acceptances: U.S. trade related	9.5	1.8	n.a.	-3.0	-3.4	n.a.	635.1 (May)
18. Finance company loans to business <sup>4</sup>	19.2	16.4	n.a.	11.5	n.a.	n.a.	158.5 (Apr)
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	11.3	4.6	n.a.	-0.3	n.a.	n.a.	795.2 (Apr)

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.

Based on average of current and preceding ends of month.

Consists of acceptances that finance U.S. imports, U.S. exports and domestic shipment and storage of goods.

e: Data in this table have been revised since the last Greenbook, reflecting benchmark and seasonal factor revisions in the bank credit series.

03-Jul-86

SELECTED FINANCIAL MARKET QUOTATIONS 1/  
(percent)

	1984	1985	1986	1986		Change from:	
	Highs	March High	April Lows	FOMC May 20	July 2	April Lows	FOMC May 20
<b>Short-term rates</b>							
Federal funds 2/	11.63	8.58	6.95	6.84	6.94	-0.01	0.10
Treasury bills 3/							
3-month	10.67	8.80	5.77	6.23	6.00	0.23	-0.23
6-month	10.77	9.13	5.81	6.26	5.95	0.14	-0.31
1-year	11.13	9.25	5.79	6.33	6.00	0.21	-0.33
Commercial paper							
1-month	11.42	8.94	6.42	6.78	6.71	0.29	-0.07
3-month	11.35	9.12	6.30	6.72	6.54	0.24	-0.18
Large negotiable CD's 3/							
1-month	11.52	8.89	6.51	6.82	6.66	0.15	-0.16
3-month	11.79	9.29	6.39	6.82	6.52	0.13	-0.30
6-month	12.30	9.92	6.35	6.83	6.51	0.16	-0.32
Eurodollar deposits 4/							
1-month	11.89	8.89	6.59	6.86	6.91	0.32	0.05
3-month	12.20	9.58	6.55	6.79	6.76	0.21	-0.03
Bank prime rate	13.70	10.50	8.50	8.50	8.50	-	-
Treasury bill futures							
Sept 1986 contract		10.74	5.16	6.19	5.61	0.45	-0.58
Dec 1986 contract			5.27	6.10	5.59	0.32	-0.51
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	13.49	11.22	6.49	7.46	7.02	0.53	-0.44
10-year	13.99	12.02	6.98	7.88	7.37	0.39	-0.51
30-year	13.94	11.97	7.14	7.58	7.22	0.08	-0.36
Municipal revenue 5/ (Bond Buyer index)	11.44	10.25	7.55	7.91	7.90	0.35	-0.01
Corporate—A utility 6/ Recently offered	15.30	13.23	9.15	9.52	9.58	0.43	0.06
Home mortgage rates 6/ S&L fixed-rate	14.68	13.29	9.60	10.08	10.62	1.02	0.54
S&L ARM, 1-yr.	12.31	11.14	8.41	8.57	8.54	0.13	-0.03

	1984	1985	1986	1986		Percent change from	
	Lows	March Lows	April Highs	FOMC May 20	July 2	April Highs	FOMC May 20
<b>Stock prices</b>							
Dow-Jones Industrial	1086.57	1247.35	1855.90	1783.98	1909.03	2.86	7.01
NYSE Composite	85.13	102.46	141.07	136.06	145.15	2.89	6.68
NYSE Composite	187.16	222.28	274.59	274.16	284.79	3.71	3.88
Q (OTC)	225.30	276.18	392.34	385.28	409.48	4.37	6.28

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 July 2, 1986.

3/ Secondary market.

4/ Averages for statement closest to date shown.

5/ Thursday quotes.

6/ Friday quotes.

e—estimate