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SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

TABLE OF CONTENTS

	Page
THE DOMESTIC NONFINANCIAL ECONOMY	
New Orders and Shipments	1
Consumer Price Index	1
Errata	2
Tables	
Business capital spending	3
Recent changes in consumer prices.	4
THE DOMESTIC FINANCIAL ECONOMY	
Tables	
Monetary aggregates	5
Commercial bank credit and short- and intermediate- term business credit	6
Selected financial market quotations	7

SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

New Orders and Shipments

New orders for nondefense capital goods rose 29.6 percent in February, after a 13.1 percent decline in January. As a result, the average level of new orders in January and February exceeded the fourth-quarter figure by about 1 percent. Much of the February increase stemmed from a 158 percent jump in orders for office and computing equipment; this surge followed two months of extremely weak orders during December and January. A sharp rise in orders for aircraft and parts also contributed to the February increase. In the remaining categories of equipment, new orders rose about 2 percent in February.

Shipments of nondefense capital goods increased 2.4 percent in February, after dropping 10.6 percent in January. For January and February combined, shipments averaged about 5-1/2 percent below their level in the fourth quarter of 1984. In February, shipments increased for most types of equipment, led by a 12.5 percent gain in aircraft and parts. For the remaining categories of equipment, shipments rose 1.1 percent.

Consumer Price Index

The consumer price index rose 0.3 percent in February as sharp declines in prices of petroleum products offset a pickup in price increases for food and other commodities. Food prices were up 0.5 percent, reflecting the weather-related shortages of many fresh fruits and vegetables. Excluding food and energy items, the index advanced 0.6 percent with large increases in the prices of new and used cars, as well as apparel and housefurnishings.

Price increases for commodities other than food and energy averaged more than 0.6 percent per month in January and February, after showing little change in the fourth quarter. In contrast, service prices, excluding energy, rose 0.4 percent for the third consecutive month.

Errata

Page II-16 of the Greenbook indicates that the merchandise trade deficit in January was \$21 billion at an annual rate. The correct figure is \$121 billion at an annual rate.

BUSINESS CAPITAL SPENDING INDICATORS
 (Percentage change from preceding comparable period;
 based on seasonally adjusted data)

	1984				1985	
	Q3	Q4	Nov.	Dec.	Jan.	Feb.
<u>Producers' durable equipment</u>						
Nondefense capital goods						
Shipments	2.7	3.6	2.8	5.1	-10.6	2.4
Orders	-1.1	-3.5	6.9	-1.9	-13.1	29.6
Unfilled orders	1.7	-2.5	-.1	-1.5	-1.9	2.8
Imports of capital goods excluding autos	23.1	-17.9	1.0	-3.9	22.1	n.a.
Exports of capital goods excluding autos	1.4	2.3	-8.5	12.1	.0	n.a.
Sales of heavy-weight trucks (thousands of units, A.R.)	252	316	345	348	299	316
<u>Nonresidential structures</u>						
Nonresidential construction	1.3	4.9	1.3	2.5	2.7	n.a.
Commercial building	1.9	10.9	2.1	3.9	5.0	n.a.

RECENT CHANGES IN CONSUMER PRICES
(Percentage change; based on seasonally adjusted data)¹

	Relative Importance Dec. 1984	1983	1984	1984			1985	
				HI	Q3	Q4	Jan.	Feb.
				--Annual rate--			--Monthly rate--	
All items ²	100.0	3.8	4.0	4.3	4.5	3.0	.3	.3
Food	18.7	2.6	3.8	3.8	3.9	3.7	.4	.5
Energy	11.5	-.5	.2	.8	.1	-.7	-.2	-1.4
All items less food and energy ³	69.8	4.9	4.7	5.0	5.3	3.5	.3	.6
Commodities ³	26.3	5.0	3.1	3.8	3.8	.9	.2	.8
Services ³	43.5	4.8	5.6	5.6	6.2	5.0	.4	.4
Memorandum:								
CPI-W ⁴	100.0	3.3	3.5	2.6	7.5	1.6	.3	.4

1. Changes are from final month of preceding period to final month of period indicated.
2. Official index for all urban consumers, based on a rental equivalence measure for owner-occupied housing after December 1982.
3. Data not strictly comparable. Before 1983, they are based on unofficial series that exclude the major components of homeownership; beginning in 1983, data include a rental equivalence measure of homeowners costs.
4. Index for urban wage earners and clerical workers, based on a rental equivalence measure for owner-occupied housing after December 1984.

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

March 22, 1985

	1984				1985		Growth from Q4 1984 to Feb. 1985
	Q2	Q3	Q4	Dec.	Jan.	Feb.	
----- Percentage change at annual rates -----							
1. M1	6.5	4.5	3.2	10.2	9.0	14.1	11.4
2. M2	7.1	6.8	9.0	13.1	13.6	10.5	12.6
3. M3	10.5	9.5	11.0	14.4	10.1	7.9	10.8
Levels in billions of dollars Feb. 1985							
<u>Selected components</u>							
4. Currency	7.5	7.3	5.1	6.1	5.3	9.0	160.6
5. Demand deposits	3.3	0.3	-1.0	8.8	2.4	12.5	251.7
6. Other checkable deposits	11.3	9.0	8.5	16.7	24.7	22.6	151.7
7. M2 minus M1 ²	7.2	7.6	10.8	14.1	15.1	9.4	1850.1
8. Overnight RPs and Eurodollars, NSA ³	0.7	2.8	2.1	-10.3	106.2	126.3	69.3
9. General purpose and broker/dealer money market mutual fund shares, NSA	15.5	10.9	28.3	42.2	32.2	22.3	175.4
10. Commercial banks	9.0	4.9	8.6	17.7	15.0	9.2	792.4
11. Savings deposits, SA, plus MMDAs, NSA ⁴	5.1	-3.6	10.6	28.0	38.2	25.7	410.7
12. Small time deposits	13.1	13.4	6.9	7.8	-8.1	-8.4	381.7
13. Thrift institutions	8.7	4.7	7.3	9.4	7.4	6.5	821.4
14. Savings deposits, SA, plus MMDAs, NSA ⁴	2.3	-12.5	-4.1	6.5	23.7	25.9	327.1
15. Small time deposits	13.4	17.0	14.8	11.4	-3.1	-6.0	494.3
16. M3 minus M2 ⁵	24.9	20.3	18.9	18.8	-3.1	-2.5	620.9
17. Large time deposits	30.4	25.7	18.8	16.3	1.4	6.6	419.6
18. At commercial banks, net ⁶	21.8	19.3	12.2	3.6	-9.5	9.1	264.3
19. At thrift institutions	48.1	38.1	31.3	39.0	20.5	2.3	155.3
20. Institution-only money market mutual fund shares, NSA	8.1	9.7	97.4	90.6	44.0	-51.7	62.2
21. Term RPs, NSA	54.2	33.4	39.6	-17.0	-82.6	16.6	65.8
22. Term Eurodollars, NSA	7.1	-22.1	-23.0	19.0	-27.4	7.4	81.8
-- Average monthly change in billions of dollars --							

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	7.1	4.2	4.2	-0.6	-7.4	11.9	438.9
24. Large time deposits, gross	6.9	1.8	3.5	2.8	-1.0	0.5	325.3
25. Nondeposit funds	0.2	2.4	0.7	-3.4	-6.4	11.4	113.6
26. Net due to related foreign institutions, NSA	1.0	-0.4	1.0	1.1	-4.5	3.4	-33.1
27. Other ⁷	-0.9	2.8	-0.4	-4.5	-1.8	8.0	146.7
28. U.S. government deposits at commercial banks ⁸	-0.7	0.6	0.0	-1.2	-1.4	-1.7	13.0

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. 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.

4. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs declined during January and February 1985 at rates of 9.8 and 2.0 percent respectively. At thrift institutions, savings deposits excluding MMDAs increased in January and February 1985 at rates of 7.2 and 8.6 percent respectively.

5. The non-M2 component of M3 is seasonally adjusted as a whole.

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

7. 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.

8. 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

	1984		Dec.	1985		Levels in bil. of dollars Feb.	
	Q2	Q3		Q4	Jan.		Feb.
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	9.2	9.5	9.8	9.6	6.2	13.0	1742.0
2. Securities	-9.8	6.6	0.5	-1.2	6.3	12.8	406.8
3. U.S. government securities	-11.2	6.8	3.4	3.7	-1.4	26.3	265.6
4. Other securities	-7.3	6.3	-4.8	-10.2	20.5	-11.8	141.2
5. Total loans	15.7	10.5	12.7	12.9	6.0	13.1	1335.2
6. Business loans	18.5	7.5	7.7	2.3	1.5	13.3	474.1
7. Security loans	-13.6	4.2	36.1	47.7	19.1	-11.3	31.6
8. Real estate loans	13.8	11.4	11.6	11.6	7.7	13.3	381.8
9. Consumer loans	21.5	14.2	16.2	20.9	16.7	16.5	258.1
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	18.4	7.9	7.8	4.1	2.1	10.3	469.7
11. Loans at foreign branches ²	21.5	8.2	26.0	40.8	45.1	-86.9	20.5
12. Sum of lines 10 & 11	18.7	7.8	8.7	5.7	3.9	5.9	490.2
13. Commercial paper issued by nonfinancial firms ³	64.8	46.8	51.2	23.4	-41.0	37.3	72.9
14. Sums of lines 12 & 13	23.3	12.2	13.7	8.0	-1.9	9.9	563.1
15. Total bankers acceptances outstanding ⁴	47.0	-16.1	-32.0	-28.2	-49.8	n.a.	71.6 (Jan.)
16. Line 14 plus total bankers acceptances outstanding	26.4	8.3	7.7	3.6	-7.6	n.a.	630.1 (Jan.)
17. Finance company loans to business ^{4,5}	15.2	9.8	23.2	25.8	32.5	n.a.	136.5 (Jan.)
18. Total short- and intermediate- term business credit (sum of lines 16 & 17)	24.5	8.5	10.3	7.4	-0.6	n.a.	766.6 (Jan.)

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.

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

5. Reporting panel change in January, 1985 increased reported acceptances \$2.1 billion. Growth rates have been adjusted to eliminate this break in series.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1982/1983	1984		1985		Change from:	
	Cyclical low	Highs	FOMC Dec. 18	FOMC Feb. 13	FOMC Mar. 21	1984 highs	FOMC Feb. 13
<u>Short-term rates</u>							
Federal funds ²	8.46	11.63	8.34	8.52	8.58	-3.05	.06
Treasury bills							
3-month	7.08	10.67	7.81	8.24	8.44	-2.23	.20
6-month	7.62	10.77	7.98	8.30	8.84	-1.93	.54
1-year	7.73	11.13	8.30	8.49	9.03	-2.10	.54
Commercial paper							
1-month	8.00	11.42	8.06	8.47	8.64	-2.78	.17
3-month	7.97	11.35	8.13	8.56	8.78	-2.57	.22
Large negotiable CDs ³							
1-month	8.08	11.52	8.18	8.51	8.64	-2.88	.13
3-month	8.13	11.79	8.29	8.70	8.88	-2.91	.18
6-month	8.20	12.30	8.47	9.05	9.41	-2.89	.36
Eurodollar deposits ⁴							
1-month	8.68	11.89	8.53	8.60	8.89	-3.00	.29
3-month	8.71	12.20	8.79	9.04	9.33	-2.87	.29
Bank prime rate	10.50	13.00	11.25	10.50	10.50	-2.50	--
Treasury bill futures							
June 1985 contract	10.11	12.82	8.66	8.77	9.05	-3.77	.28
Dec. 1985 contract	10.86	13.20	9.43	9.64	9.82	-3.38	.18
<u>Intermediate- and long-term rates</u>							
U.S. Treasury (constant maturity)							
3-year	9.33	13.49	10.24	10.44	11.02	-2.47	.58
10-year	10.12	13.99	11.29	11.39	11.82	-2.17	.43
30-year	10.27	13.94	11.35	11.31	11.77	-2.17	.46
Municipal revenue (Bond Buyer Index)	9.21	11.44	10.44 ⁵	9.96 ⁵	10.24	-1.20	.28
Corporate--A utility Recently offered	11.64	15.30	12.80 ^e	12.65 ^e	13.24 ^e	-2.06	.59
Home mortgage rates							
S&L fixed-rate	12.55	14.68	13.18 ⁶	12.90	13.20 ⁶	-1.48	.30
S&L ARM, 1-yr.	n.a.	12.31	11.07 ⁶	10.59	10.87 ⁶	-1.44	.28
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>		<u>Percent change from:</u>	
			FOMC	FOMC		FOMC	FOMC
	Lows	Highs	Dec. 18	Feb. 13	Mar. 21	Dec. 18	Feb. 13
<u>Stock prices</u>							
Dow-Jones Industrial	776.92	1287.20	1211.57	1297.92	1268.22	4.7	-2.3
NYSE Composite	58.80	99.63	96.78	106.08	103.85	7.3	-2.1
AMEX Composite	118.65	249.03	204.00	231.22	224.89	10.2	-2.7
NASDAQ (OTC)	159.14	328.91	243.44	288.32	279.03	14.6	-3.2

1. One-day quotes except as noted.

2. Averages for two-week reserve maintenance period closest to date shown. Last observation is for maintenance period ended March 13, 1985.

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--estimated.