

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

CONFIDENTIAL (FR)
CLASS II - FOMC

July 7, 1980

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

	<u>Page</u>
Producer prices	1
Employment and earnings	2
Interest rates on S&L new commitments for home mortgages .	3
Wholesale trade inventories and sales	3
ERRATA	3

TABLES:

Recent changes in producer prices	5
Changes in employment	6
Hourly earnings index	7
Selected Financial Market Quotations	8
Monetary aggregates	9
Commercial Bank Credit and short- and intermediate- term business credit	10

SUPPLEMENTAL NOTES

Producer prices

Producer prices of finished goods rose 0.8 percent in June, following an 0.3 percent increase in May. In June, a decline in energy prices was more than offset by advances in prices for food, consumer durable goods, and capital equipment. The index for consumer finished goods other than food and energy rose 1.1 percent, following the 0.4 percent advance in May; the June increase in prices of nonfood, non-energy consumer finished goods was especially large for gold jewelry, apparel, and passenger cars. Prices of capital equipment increased 0.9 percent in June, about the same as the average monthly increase in the first five months of the year, although they were unchanged in May; increases in these capital goods prices were large for photographic equipment, machine tools, oil field and mining equipment, and office and store machinery. The 0.7 percent increase in finished food prices, following a 0.1 percent rise in May, reflected primarily a surge in prices of beef and veal.

Prices of intermediate materials also posted an 0.8 percent increase, with prices of durable manufacturing materials and many construction supplies registering large increases. At the crude level prices were up only 0.3 percent.

Employment and earnings

Labor demand deteriorated in June for the fourth consecutive month. Nonfarm payroll employment fell about 500,000, bringing the cumulative decline since February to more than 1 million. As in earlier months, payroll reductions were heaviest in manufacturing; however, employment in the service-producing sector as a whole also dropped 135,000--the first monthly decline since the 1974-75 recession. Within manufacturing, sizable job losses occurred at the primary and fabricated metals, machinery, electrical equipment, furniture, and stone, clay, and glass products industries. Construction employment resumed its downward trend after changing little in May, and trade establishments cut payrolls for the fourth consecutive month. The factory workweek was off another 0.2 hour; since January work schedules have shortened by nearly 1-1/4 hours.

Total employment, as measured by the household survey, also declined about 1/2 million in June. A large drop in the labor force offset most of the exceptional increase in May, and this was partially reflected in a decline in unemployment; the unemployment rate remained essentially unchanged at 7.7 percent. (The pattern of changes in the labor force, and unemployment, in May and June appears to reflect problems in seasonal adjustment associated with the entry of younger workers into the work force.) Jobless rates for most worker groups changed very little. However, in spite of the stability in the overall unemployment rate, the decline in employment has continued and the number of persons on layoff as well as those whose jobs have been terminated have risen further.

The index of average hourly earnings increased 1 percent in June to a level 9.4 percent above one year ago. The second quarter increase in this series was 9.6 percent at an annual rate.

Interest rates on S&L new commitments for home mortgages

The average contract interest rate on new commitments for conventional home mortgages at sampled S&Ls declined 17 basis points further in the week ended July 3 to 12.18 percent, a rate 417 basis points below the high last spring. Seventy-two percent of the reporting S&Ls indicated that the supply of mortgage funds was below normal seasonal patterns, compared with the recent high of 93 percent.

Wholesale trade inventories and sales

The book value of wholesale trade inventories declined at an annual rate of \$4.3 billion in May, following a \$12.3 billion rate buildup in April. The rate of inventory increase in these two months combined was considerably below the rate of accumulation in recent quarters. The drop in stocks held by wholesalers in May was accompanied by a 0.6 percent decline in sales, and the inventory-sales ratio was unchanged at 1.21.

ERRATA:

Part I, page I-20.

Second full paragraph: Delete "at large banks" in next to last line.

Part I, page I-21.

Third line should read "was nearly offset by a drop in money market certificates--and large CDs declined."

Part II, page III-6.

The figures "14-1/2" in the last line should be "41-1/2."

RECENT CHANGES IN PRODUCER PRICES
(Percentage change at annual rates; based on seasonally adjusted data)1/

	Relative importance ^{2/} Dec. 1979	1978	1979	1980		
				Q1	Q2	June
Finished goods	100.0	9.2	12.6	18.9	6.3	9.5
Consumer foods	24.3	11.9	7.6	-1.2	-7.8	8.5
Consumer nonfood	47.4	8.4	18.0	34.2	10.6	8.7
Energy	10.3	8.0	62.7	109.2	17.1	-7.0
Exc. energy	37.0	8.5	9.6	17.4	8.3	13.2
Capital equipment	28.4	8.0	8.8	12.7	11.7	10.7
Intermediate materials ^{3/}	94.9	8.3	16.5	23.1	5.2	10.0
Exc. food and energy	81.3	8.9	13.0	17.2	5.1	11.2
Crude food materials	55.4	18.3	11.1	-16.7	-10.5	13.3
Crude nonfood	44.6	15.6	26.0	21.4	-3.5	-5.6
Exc. energy	16.0	21.0	13.1	6.6	-37.5	-44.4

1. Changes are from final month of preceding period to final month of period indicated. Changes for other than monthly and yearly periods are compounded.

2. Relative importance weights are on a stage of processing basis.

3. Excludes intermediate materials for manufacturing food and animal feed.

CHANGES IN EMPLOYMENT¹
(Thousands of employees; based on seasonally adjusted data)

	1978	1979	1980			
			Q1	Q2	May	June
- - - Average monthly changes - - -						
<u>Nonfarm payroll employment</u> ²	357	176	155	-352	-349	-514
Strike adjusted	341	182	158	-378	-405	-522
Manufacturing	74	1	-15	-323	-360	-313
Durable	62	4	0	-267	-303	-234
Nondurable	12	-3	-15	-56	-57	-79
Construction	31	20	-29	-51	-26	-64
Trade, finance and services	182	113	144	-37	35	-110
Private nonfarm production workers	264	112	55	-424	-395	-479
Manufacturing production workers	54	-11	-35	-518	-369	-886
<u>Total employment</u> ³	270	173	-85	-373	-166	-451
Nonagricultural	264	175	-85	-317	-303	-263

1. Changes are from final month of preceding period to final month of period indicated
2. Survey of establishments. Not strike adjusted, except where noted.
3. Survey of households.

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

	1978	1979	1980			
			Q1	Q2	May	June
Total, 16 years and older	6.0	5.8	6.1	7.5	7.8	7.7
Teenagers	16.3	16.1	16.2	18.0	19.2	18.5
20-24 years old	9.5	9.0	9.8	11.4	12.7	12.4
Men, 25 years and older	3.3	3.3	3.7	4.7	5.3	5.5
Women, 25 years and older	5.1	4.8	4.9	5.5	5.7	5.6
White	5.2	5.1	5.4	6.6	6.9	6.8
Black and other	11.9	11.3	11.7	13.4	13.9	13.6
Fulltime workers	5.5	5.3	5.7	6.6	7.5	7.4
White collar	3.5	3.3	3.4	3.7	3.9	3.7
Blue collar	6.9	6.9	7.9	9.7	11.3	11.5

HOURLY EARNINGS INDEX¹
 (Percent change at compound annual rates;
 based on seasonally adjusted data)²

	1978	1979	1980			
			Q1	Q2	May	June
Total private nonfarm	8.4	8.1	9.8	9.6	9.7	11.9
Manufacturing	8.4	8.7	9.9	12.2	12.1	12.7
Durable	8.5	8.7	10.7	13.0	12.8	14.1
Nondurable	8.3	8.8	8.6	10.4	10.8	10.1
Contract construction	7.6	6.8	5.0	8.4	4.1	5.6
Transportation and public utilities	7.4	9.1	7.7	8.9	5.5	10.0
Total trade	9.6	7.6	12.2	6.3	8.9	8.4
Services	7.6	7.7	8.8	10.2	13.4	15.9

1. Excludes the effect of interindustry shifts in employment and fluctuations in overtime pay in manufacturing.

2. Changes are from final quarter of preceding period to final quarter of period indicated, except monthly changes which are from preceding month; monthly changes are not compounded.

SELECTED FINANCIAL MARKET QUOTATIONS
(Percent)

	1979 ¹	1980 ¹				Change from:	
	FOMC Oct. 5	Mar-Apr High	FOMC May 20	Intermeeting Low **	July 7	Mar-Apr High	FOMC May 20
<u>Short-term rates</u>							
Federal funds ²	11.91	19.39	10.71	8.99	9.56p	-9.83	-1.15
Treasury bills							
3-month	10.70	16.00	8.29	6.18	8.24	-7.76	-.05
6-month	10.63	15.64	8.31	6.60	8.19	-7.45	-.12
1-year	10.28	14.58	8.38	7.00	7.99	-6.59	-.39
Commercial paper							
1-month	11.73	18.00	9.71	7.98	8.68	-9.32	-1.03
3-month	11.86	17.69	9.62	7.78	8.44	-9.25	-1.18
6-month	11.84	17.25	9.38	7.59	8.17	-9.08	-1.21
Large negotiable CDs ³							
1-month	12.09	17.87	9.84	7.96	8.57	-9.30	-1.27
3-month	12.50	18.59	9.83	7.90	8.59	-10.00	-1.24
6-month	12.80	18.47	9.80	7.66	8.54	-9.93	-1.26
Eurodollar deposit ²							
1-month	12.45	19.04	10.26	8.88	9.08p	-9.96	-1.18
3-month	12.79	19.60	11.09	8.99	9.29p	-10.31	-1.80
Bank prime rate	13.50	20.00	16.50	11.50	11.50	-8.50	-5.00
<u>Intermediate- and long-term rates</u>							
U.S. Treasury (constant maturity)							
3-year	10.01	14.53	9.23	8.56	9.15	-5.38	-.08
10-year	9.60	13.65*	10.22	9.47	10.20	-3.45	-.02
30-year	9.36	12.85*	10.47	9.49	10.22	-2.63	-.25
Municipal (Bond Buyer) ⁴	6.64	9.44	7.44	7.44	7.88	-1.56	.44
Corporate Aaa							
New issue ⁵	10.22	14.22	11.43	10.53	11.51p	-2.71	.08
Recently offered ⁶	10.25	14.12	11.65	10.79	11.17p	-2.95	-.48
Primary conventional mortgages ⁶	11.35	16.35	14.15	12.18	12.18	-4.17	-1.97
	FOMC Oct. 5	Mar-Apr Low	FOMC May 20	Intermeeting High	July 7	Mar-Apr Low	FOMC May 20
<u>Stock prices</u>							
Dow-Jones Industrial	897.61	759.13	832.51	881.91	898.21	139.08	65.70
NYSE Composite	63.39	55.30	61.35	66.36	67.58	12.28	6.23
AMEX Composite	235.15	215.69	259.73	297.60	309.89	94.20	50.16
NASDAQ (OTC)	152.29	124.09	146.93	159.18	163.63	39.54	16.70

1. One-day quotes except as noted.

Averages for statement week closest to date shown.

Secondary market.

4. One-day quotes for preceding Thursday.

5. Averages for preceding week.

6. One-day quotes for preceding Friday.

*--Highs reached on February 26.

**--Most lows occurred on or around June 13.

MONETARY AGGREGATES

(Based on seasonally adjusted data unless otherwise noted)¹

	1979		1980				June '79
	Q4	Q1	Q2 ^e	Apr.	May	June ^e	to June '80 ^e
---- Percentage change at annual rates ----							
<u>Money stock measures</u>							
1. M-1A	4.5	4.8	-3.7	-17.7	0.7	13.7	3.5
2. M-1B	5.0	5.9	-2.2	-14.1	-1.2	16.8	4.7
3. M-2	7.1	7.2	5.3	-2.0	8.8	17.3	8.1
4. M-3	9.1	7.7	5.6	0.4	8.7	12.4	8.7
<u>Selected components</u>							
5. Currency	8.5	8.3	7.4	1.1	12.1	10.9	9.1
6. Demand deposits	2.9	3.4	-8.0	-25.4	-4.2	14.9	1.3
7. Other checkable deposits, NSA ²	12.6	29.3	31.8	66.7	-37.9	78.3	34.2
8. M-2 minus M-1B (9+10+11+14)	7.8	7.6	7.9	2.1	12.2	17.5	9.2
9. Overnight RPs and Eurodollars, NSA ³	-33.1	-7.5	-73.6	-209.8	70.9	-33.5	-24.3
10. Money market mutual fund shares, NSA	120.0	149.9	79.4	4.0	95.0	141.3	197.2
11. Commercial banks	8.6	6.9	9.8	14.1	5.6	11.2	9.3
12. savings deposits	-16.5	-19.3	-22.8	-43.3	-7.5	32.2	-12.6
13. small time deposits	32.1	29.1	34.1	54.4	14.1	-2.2	30.8
14. Thrift institutions	3.7	-0.3	3.6	1.7	7.0	8.4	3.3
15. savings deposits	-26.0	-22.5	-28.7	-45.4	-20.9	6.1	-18.6
16. small time deposits	22.3	12.0	20.0	24.7	19.8	9.5	17.3
17. Large time deposits	28.3	17.5	10.6	17.7	9.3	-24.5	17.1
18. at commercial banks, net ⁴	20.2	9.5	7.4	15.9	4.8	-28.9	10.3
19. at thrift institutions	90.8	72.6	28.9	28.2	34.4	0.0	76.0
20. Term RPs, NSA	-16.0	-33.2	-19.5	-8.9	0.0	49.1	-60.0

--Average monthly change in billions of dollars--

MEMORANDA:

21. Managed liabilities at commercial banks (22+23)	-1.6	8.0	-8.2	-6.0	-2.4	-16.1	1.7
22. Large time deposits, gross	2.0	3.1	-0.1	3.2	1.7	-5.1	2.2
23. Nondeposit funds	-3.6	4.9	-8.1	-9.2	-4.1	-11.0	-0.5
24. Net due to related foreign institutions, NSA	-2.5	1.6	-6.1	-6.0	-3.7	-8.5	-1.0
25. Other ⁵	-1.1	3.2	-2.0	-3.1	-0.5	-2.5	0.5
26. U.S. government deposits at commercial banks ⁶	-1.0	-0.2	0.3	1.1	0.8	-0.9	-0.1

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

2. Consists of ATS and NOW balances at all institutions, credit union share draft balances, and demand deposits at mutual savings banks.

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 California branches of U.S. member banks to U.S. nonbank customers.

4. 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, loans RPs, and other minor items.

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

e---estimated.

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

	1979		1980				June '79
	Q4	Q1	Q2 ^e	Apr.	May	June ^e	to June '80 ^e
----- Commercial Bank Credit -----							
1. Total loans and investments at banks ²	3.4	11.5	-4.7	-4.3	-6.1r	-3.8	6.6
2. Investments	3.5	7.3	10.6	-4.5	20.3r	15.9	7.7
3. Treasury securities	-5.9	3.0	9.7	-16.5	18.0r	27.9	2.1
4. Other securities	8.3	9.4	11.0	1.2	21.4	10.2	10.6
5. Total loans ²	3.4	12.8	-9.8	-4.2	-15.0r	-10.4	6.2
6. Business loans	6.0	16.4	-8.3	-5.1	-13.9r	-6.0	9.4
7. Security loans	-88.5	-32.8	-23.8	-21.4	-50.9r	0.0	-31.3
8. Real estate loans	14.2	11.9	0.6	2.4	2.4	-2.9	10.8
9. Consumer loans	5.5	3.7	n.a.	-14.3	-23.1	n.a.	n.a.
-- Short- and Intermediate-Term Business Credit --							
10. Total short- and intermediate-term business credit (sum of lines 13,14 and 15)	6.4	22.0	n.a.	0.3	n.a.	n.a.	n.a.
11. Business loans net of bankers acceptances ¹	6.3	17.6	-9.2	-4.9	-16.3r	-6.6	9.2
12. Commercial paper issued by nonfinancial firms ³	15.5	76.2	85.7	37.7	119.7	84.6	76.3
13. Sum of lines 11 & 12	7.0	23.1	0.8	-0.4	-1.4	4.4	14.8
14. Finance company loans to business ⁴	4.0	-2.8	n.a.	0.0	n.a.	n.a.	n.a.
15. Total bankers acceptances outstanding ⁴	4.6	54.1	n.a.	4.8	n.a.	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.

. Average of Wednesdays.

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

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