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August 20, 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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THE DOMESTIC NONFINANCIAL ECONOMY

Employment Costs

The rate of increase in employment costs of all private nonfarm workers other than in private households slowed further during the three months ended in June, thus extending the decline in the rate of rise in these costs that began a year earlier. Wage and salary rates of these workers as measured by the comprehensive employment cost index, seasonally adjusted, rose at a 4.8 percent annual rate during the second quarter of this year, following a 7.4 percent rate of increase over the first quarter. A marked slowing has occurred this year in the increase in wages and salaries of union and nonunion workers, of white-collar and blue-collar workers, and of workers in manufacturing, trade, and services industries. The 6.1 percent average annual rate of increase over the first half of this year for all private nonfarm workers is well below the 8-3/4 to 9 percent increases prevailing during 1979, 1980, and 1981.

Increases in compensation rates, which include employer costs for employee benefits as well as wages and salaries, also have been more moderate recently, but the slowing in the rate of increase in compensation rates has been somewhat less than in the rate of rise in wage and salary rates. Over the year ended in June, however, the increase in the compensation rate, 7.2 percent, was about the same as the 7.1 percent rise in wage and salary rates; these increases are down from advances over the year ended in June 1981 of 10.3 percent and 9.3 percent, respectively.

EMPLOYMENT COST INDEX: WAGES AND SALARIES
 (Percentage change at annual rates; quarterly
 changes based on seasonally adjusted data¹)

	1979	1980	1981	1981				1982		
	ANN.	ANN.	ANN.	Q1	Q2	Q3	Q4	Q1	Q2	H2
Total Private Nonfarm	8.7	9.0	8.8	10.5	8.5	8.4	7.9	7.4	4.8	6.1
By Industry										
Manufacturing	8.6	9.4	8.7	9.0	9.6	9.7	6.5	6.9	4.9	5.9
Transportation and public utilities	9.4	11.1	8.4	9.3	9.6	7.3	7.4	8.4	4.6	8.3
Trade	7.9	7.8	7.6	10.1	6.7	7.0	6.6	3.0	6.8	4.9
Services	8.5	8.7	10.6	15.1	3.5	13.4	10.5	9.7	6.6	8.1
By Occupational Group										
White-collar workers	8.6	8.7	9.1	11.3	8.7	7.8	8.9	7.6	5.0	6.3
Blue-collar workers	9.0	9.6	8.6	9.1	8.8	9.3	7.1	6.4	3.7	5.1
Service workers	7.2	8.1	8.3	11.8	6.2	8.8	6.7	8.5	7.7	8.1
By Bargaining Status										
Union	9.0	10.9	9.6	8.7	10.5	10.3	8.9	7.8	5.5	6.6
Nonunion	8.5	8.0	8.5	11.1	7.7	7.7	7.7	7.0	3.8	5.3

1. Percentage changes are from final month of the preceding period to final month of the period indicated. Quarterly changes are compounded, seasonal adjustment by FRB staff.

SELECTED MEASURES OF COMPENSATION, PRODUCTIVITY,
AND COSTS IN THE NONFARM BUSINESS SECTOR
(Percentage change at annual rates; quarterly
changes based on seasonally adjusted data)

	1980	1981	1981		1982		Year-to-date
			Q3	Q4	Q1	Q2	
<u>Hourly Earnings Index - production workers¹</u>							Dec. 1981- July 1982
Total private nonfarm	9.6	8.4	8.5	7.3	6.5	6.3	6.2
Manufacturing	10.9	8.8	8.7	7.7	8.7	6.7	7.5
Contract construction	7.7	8.1	8.9	8.8	9.0	2.4	4.7
Transportation and public utilities	9.3	8.5	6.4	7.7	7.4	5.9	4.4
Trade	8.8	7.1	8.0	4.3	3.8	6.3	4.3
Services	9.5	9.1	9.3	9.2	5.1	7.4	7.4
<u>Employment Cost Index, wages and salaries - all persons²</u>							1981-Q4 to 1982-Q2
Total	9.0	8.8	8.4	7.9	7.4	4.8	6.1
By Occupation:							
White collar	8.7	9.1	7.8	8.9	7.6	5.0	6.3
Blue collar	9.6	8.6	9.3	7.1	6.4	3.7	5.1
Service Workers	8.1	8.3	8.8	6.7	8.5	7.7	8.1
By Bargaining Status:							
Union	10.9	9.6	10.3	8.9	7.8	5.5	6.6
Nonunion	8.0	8.5	7.7	7.7	7.0	3.8	5.3
<u>Labor Productivity and Costs - all persons¹</u>							1981-Q4 to 1982-Q2
Compensation per hour	10.6	8.8	9.0	7.3	10.1	6.2	8.0
Output per hour	.3	-.1	-.3	-3.5	2.6	2.3	2.4
Unit labor costs	10.2	8.9	9.3	11.2	7.4	3.8	5.6

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

2. Percent change from final month of preceding period to final month of period indicated. Quarterly changes are compounded; seasonal adjustment by FRB staff.

THE DOMESTIC FINANCIAL ECONOMY

Interest Rate Developments

Interest rates have dropped sharply further between the close on Tuesday and midday Friday. In part, the rally in debt markets was sparked by passage of the tax increase legislation and by speculation that the discount rate would be lowered again soon. However, declines in rates have been particularly large on short-term Treasury bills, as a "flight to quality" developed in response to rumors of potentially large losses by money center banks in connection with the Mexican difficulties. Such concerns were particularly apparent in the CD market, as the spread between rates on Treasury bills and CDs widened appreciably, increased tiering developed for awhile within the CD market, and some money funds reportedly were reducing their CD holdings. Reports also were circulating that large nonbank dealers were paying substantially lower rates on RPs than some money center banks.

Corporate Bond Issuance

The sharp drop in interest rates has brought forth a substantial increase in longer-term corporate note and bond offerings. Leading underwriters have indicated that, given pressures to lengthen the maturity of corporate liabilities, the total for August easily could exceed \$5 billion if interest rates remain at their current levels.

Budget Developments

Both the House and the Senate on August 18 passed the reconciliation bill that reduces outlays for price supports for farm products and other federal spending programs. On August 19, both houses passed the

revenue-raising bill which also reduces spending in several entitlement programs. This latter bill also provides for supplemental unemployment compensation benefits in all states, raises the federal unemployment compensation tax and extends the employment tax for medicare to federal employees. The estimates for outlay reductions and revenue increases in these bills are shown in the table that follows.

EFFECTS OF 1982 DEFICIT REDUCTION MEASURES
 (- raises the deficit, fiscal years, billions of dollars)

	1983	1984	1985	FY83-85 Total
Outlay Reductions¹				
Reconciliation Act of 1982	3.2	4.7	5.2	13.1
Tax Equity and Fiscal Responsibility Act (TEFRA)				
a. Unemployment compensation (net)	-1.0	0.7	0.6	0.3
b. Other outlays	3.6	5.7	7.5	16.8
Revenue Increases (TEFRA)²				
Individual income tax increases and pension provisions	0.5	3.9	3.9	8.3
Corporate tax increases and acceleration	5.4	13.3	16.5	35.2
Life insurance and annuity provisions	1.9	2.1	2.9	6.9
Excise tax increases	2.8	4.0	4.7	11.5
Employment tax increases	1.9	3.1	3.6	8.6
Compliance and misc. provisions	3.3	8.8	8.6	20.7
Increased revenue from more IRS agents	<u>2.1</u>	<u>2.4</u>	<u>2.4</u>	<u>6.9</u>
TOTAL REVENUE INCREASES	18.0	37.7	42.7	98.4

1. Estimates by the Congressional Budget Office as reported by the Senate Budget Committee.

2. Estimates by the Joint Committee on Taxation in the Conference Report to accompany H.R. 4961.

Note: details do not add to totals due to rounding.

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

	1981		1982			QIV. '81 to July '82	
	Q4	Q1	Q2	May	June	July	July '82
--Percentage change at annual rates--							
<u>Money stock measures</u>							
1. M1	5.7	10.4	3.3	-2.4	-0.3	-0.5	5.2
2. (M1) ²	5.5	9.5	3.6	0.5	2.9	-4.2	4.7
3. M2	8.9	9.8	9.5	10.7	6.6	9.4	9.6
4. M3	9.3	8.7	10.7	11.1	8.9	12.5	10.3
<u>Selected components</u>							
5. Currency	4.3	7.9	9.3	10.5	9.4	3.7	8.2
6. Demand deposits	-0.2	-0.5	-5.8	-1.5	-8.8	-2.1	-3.4
7. Other checkable deposits	27.6	49.5	19.6	-21.7	6.9	-2.7	26.0
8. M2 minus M1 (9+10+11+14)	9.9	9.5	11.5	14.9	8.7	12.5	11.1
9. Overnight RPs and Eurodollars, NSA ³	-44.1	63.6	-8.4	71.3	8.4	8.4	25.5
10. General purpose and broker/dealer money market mutual fund shares, NSA	74.2	33.8	20.9	17.8	31.4	19.2	27.8
11. Commercial banks	10.3	9.4	17.2	14.2	9.9	13.9	13.5
12. savings deposits	-11.9	8.7	2.0	-1.5	-4.5	-21.8	0.8
13. small time deposits	20.8	9.7	23.8	20.8	15.8	28.5	19.1
14. Thrift institutions	1.5	1.6	6.0	10.9	2.4	10.8	4.9
15. savings deposits	-11.7	10.2	0.6	3.2	-3.2	-17.7	1.6
16. small time deposits	6.6	-1.5	8.1	13.9	4.5	21.4	6.1
17. M3 minus M2 (18+21+22)	11.2	3.3	16.7	12.7	20.5	27.8	13.6
18. Large time deposits	3.5	8.9	19.1	16.6	25.0	26.3	17.2
19. at commercial banks, net ⁴	0.2	6.1	19.9	21.4	26.0	31.7	17.4
20. at thrift institutions	19.5	21.6	15.5	-4.1	20.5	2.0	16.2
21. Institutions-only money market mutual fund shares, NSA	132.8	-2.5	15.2	49.5	32.9	106.8	23.7
22. Term RPs, NSA	0.0	-29.9	3.7	-66.7	-44.6	-57.9	-22.4
--Average monthly change in billions of dollars--							
<u>MEMORANDA:</u>							
23. Managed liabilities at commercial banks ⁴ (24+25)	0.2	0.6	6.4	5.7	10.8	6.2	3.8
24. Large time deposits, gross ⁵	-0.2	2.7	5.8	6.7	8.3	10.6	4.5
25. Nondeposit funds ⁵	0.4	-2.1	0.6	-1.0	2.5	-4.4	-0.7
26. Net due to related foreign institutions, NSA ⁵	-2.3	-2.1	0.5	-1.0	1.7	-4.8	-1.4
27. Other ^{5,6}	2.7	0.0	0.1	0.0	0.8	0.4	0.6
28. U.S. government deposits at commercial banks ⁷	0.8	1.9	-2.5	1.7	-5.4	-1.5	-0.4

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. M1 seasonally adjusted using alternative model-based procedure applied to weekly data.

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, which are in the small time deposit components.

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

5. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to June 1982.

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.

Data are partially estimated.

7. 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

	1981	1982			QIV '81		July '82
	Q4	Q1	Q2	May	June	July	
--Commercial Bank Credit--							
1. Total loans and investments at banks ^{2,3}	6.4	10.1	7.9	9.0	5.1	6.4	8.7
2. Investments	4.8	5.7	4.7	2.1	1.7	2.4	4.7
3. Treasury securities	-7.8	11.5	4.9	-3.1	-5.2	7.3	6.7
4. Other securities	11.2	2.8	4.8	4.6	5.1	0.0	3.7
5. Total loans ^{2,3}	6.9	11.5	9.0	11.3	6.4	7.6	10.0
6. Business loans ^{2,3}	9.2	16.8	14.9	19.1	14.5	9.6	15.0
7. Security loans	58.6	-18.3	-26.8	-17.2	-64.1	92.3	1.4
8. Real estate loans	7.3	7.8	6.6	6.5	7.3	.8	6.8
9. Consumer loans	4.1	2.8	3.0	3.2	2.6	5.7	3.7
--Short- and Intermediate-Term Business Credit--							
10. Total short- and intermediate-term business credit (sum of lines 14, 15 and 16)	13.8	15.2	13.1	18.5	10.6	n.a.	n.a.
11. Business loans net of bankers acceptances ³	9.3	16.5	15.8	19.9	18.0	11.0	15.5
12. Commercial paper issued by non-financial firms ⁵	21.3	30.0	16.8	33.1	2.0	38.2	27.7
13. Sum of line 11 & 12	10.8	18.2	15.9	21.7	15.9	14.9	17.0
14. Line 13 plus loans at foreign branches ⁶	14.0	18.5	15.7	23.1	13.6	14.9	17.4
15. Finance company loans to business ⁷	7.6	1.0	1.5	-1.5	10.5	n.a.	n.a.
16. Total bankers acceptances outstanding ⁷	20.9	11.7	10.2	11.7	-6.6	n.a.	n.a.

1. Average of Wednesdays for domestically 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. Adjusted for shifts of assets and liabilities to International Banking Facilities (IBFs) which affected flows from December 1981 to June 1982.

4. Growth of bank credit from the FOMC's December-January base through July 1982, not adjusted for shifts of assets from domestic offices to IBFs, was at an annual rate of 7.8 percent. Adjusted for such shifts after January, growth over this period was 8.6 percent.

5. Average of Wednesdays.

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

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

n.a.--not available.

SELECTED FINANCIAL MARKET QUOTATIONS¹
(Percent)

	1981	1982		Change from:		
	Highs	Feb. Highs	FOMC July 1	Aug. 19	Feb. Highs	FOMC July 1
<u>Short-term rates</u>						
Federal funds ²	20.06	15.61	14.81	10.11	-5.50	-4.70
Treasury bills						
3-month	17.01	14.57	12.55	7.52	-7.05	-5.03
6-month	15.93	14.36	12.90	8.77	-5.59	-4.13
1-year	15.21	13.55	12.72	9.39	-4.16	-3.33
Commercial paper						
1-month	18.63	15.73	14.61	8.56	-7.17	-6.05
3-month	18.29	15.61	14.61	9.13	-6.48	-5.48
Large negotiable CDs ³						
1-month	18.90	15.94	14.87	9.14	-6.80	-5.73
3-month	19.01	16.14	15.16	9.55	-6.59	-5.61
6-month	18.50	16.18	15.29	10.55	-5.63	-4.74
Eurodollar deposits ²						
1-month	19.80	16.36	15.66	10.80	-5.56	-4.86
3-month	19.56	16.53	16.28	11.58	-4.95	-4.70
Bank prime rate	21.50	17.00	16.50	14.00	-3.00	-2.50
Treasury bill futures						
Sept. 1982 contract	14.46	14.18	12.84	8.90	-5.28	-3.94
Mar. 1983 contract	14.20	14.02	13.03	10.89	-3.13	-2.14
<u>Intermediate- and long-term rates</u>						
U.S. Treasury (constant maturity)						
3-year	16.59	15.16	14.68	11.91	-3.25	-2.77
10-year	15.84	14.95	14.40	12.47	-2.48	-1.93
30-year	15.20	14.80	13.90	12.31	-2.49	-1.59
Municipal (Bond Buyer)	13.30	13.44	12.58	10.82	-2.62	-1.76
Corporate--Aaa utility						
Recently offered	17.72	16.34	16.00 ^e	14.10 p	-2.24	-1.90
S&L fixed-rate mortgage commitment	18.63	17.66	16.73 ⁵	16.44 ⁵	-1.22	-.29
	1981	1982		Percent change from:		
	Highs	FOMC July 1	Aug. 19	1981 Highs	FOMC July 1	
<u>Stock Prices</u>						
Dow-Jones Industrial	1,024.05	803.27	838.57	-18.1	+4.4	
NYSE Composite	79.14	62.51	62.57	-20.9	+1	
AMEX Composite	380.36	249.40	248.94	-34.6	-.2	
NASDAQ (OTC)	223.47	170.60	164.92	-26.2	-3.3	

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.
p--preliminary. e--estimated.