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July 13, 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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THE DOMESTIC NONFINANCIAL ECONOMY

Industrial Production

Industrial production increased an estimated 0.5 percent in June following a 0.4 percent rise in May. Production advances earlier in the year had averaged 1 percent per month. June production gains were largest for equipment, energy and autos, which rose 2-1/2 percent to an annual rate of 7.8 million units. Output of steel dropped nearly 3 percent and production of construction supplies was off 0.3 percent. By industry grouping, manufacturing output rose 0.4 percent, while coal mining and oil and gas well drilling were up sharply and unusually hot weather resulted in strong demand for electricity in June.

INDUSTRIAL PRODUCTION
(Percentage change from preceding period;
based on seasonally adjusted data)

	1984		1984		
	Q1	Q2	Apr.	May	June
	-----Annual rate-----		--Monthly rate--		
Total	11.5	8.0	.9	.4	.5
Final products	11.9	8.0	1.0	.6	.6
Consumer goods	7.4	6.1	.8	.4	.4
Durable	16.0	-0.9	-.4	-.2	.6
Nondurable	4.1	9.1	1.3	.6	.4
Business equipment	19.1	9.0	.8	1.1	.9
Defense and space equipment	17.4	14.4	2.1	.6	.8
Construction supplies	14.8	6.5	.5	-.1	-.3
Materials	12.3	8.8	.9	.1	.6
Durable goods	20.6	11.5	1.3	.1	.4
Nondurable goods	0.5	6.6	.1	.4	.3
Energy materials	10.9	5.0	.8	-.2	1.4

THE DOMESTIC NONFINANCIAL ECONOMY

Retail Sales

Retail sales increased 0.8 percent in June, and the estimated gains for April and May were revised upward. All major types of stores except gasoline stations contributed to the June advance. Sales excluding automotive, gasoline and nonconsumer stores rose 0.7 percent, led by a 2.9 percent advance in spending for such largely discretionary goods as general merchandise, apparel, and furniture and appliances--the GAF grouping of stores. For the second quarter as a whole, sales were up 2.7 percent. Spending at the automotive group increased 4.4 percent and expenditures for food rose 2.0 percent. The 3.8 percent quarterly increase in GAF sales was the largest since the first quarter of 1981.

RETAIL SALES
(Percent change from previous period;
based on seasonally adjusted data)

	1983			1984		
	Q4	Q1	Q2	Apr.	May	June
Total sales	2.9	3.5	2.7	3.5	.5	.8
(Real) ¹	2.5	3.0	--	3.5	.4	--
Total, less automotive, gasoline and nonconsumer stores	1.6	3.0	2.2	2.7	.1	.7
GAF ²	3.3	3.2	3.8	4.0	.3	2.9
Durable	6.8	5.1	4.1	6.0	.9	2.1
Automotive group	9.4	5.7	4.4	7.6	1.2	2.6
Furniture & appliances	3.4	3.5	4.3	4.6	-2.2	6.3
Nondurable	1.0	2.7	2.0	2.2	.3	.1
Apparel	4.2	2.4	6.1	4.0	.4	2.2
Food	.1	2.2	2.0	2.1	-.6	.4
General merchandise ³	2.9	3.4	2.8	3.7	1.2	1.9
Gasoline stations	-.7	.3	2.1	.3	1.9	-1.5

1. BCD series 59. Data are available approximately 3 weeks following the retail sales release.

2. General merchandise, apparel, furniture and appliance stores.

3. General merchandise excludes mail-order nonstores.

SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Producer Price Index

Producer prices of finished goods were unchanged in June for the third month, as the food and gasoline indexes fell. Prices of goods other than food and energy advanced 0.2 percent—similar to the average monthly pace over the past year—with the indexes for most consumer items little changed, or even down. Prices of capital equipment were unchanged in June, and were only about 2-1/2 percent above their year-earlier level.

Finished food prices fell 0.6 percent in the June PPI, as major declines were posted for meats, poultry, fish, and eggs. At the farm level, the index for crude foods also fell for the third month, with notable declines for livestock and oilseeds. However, developments in commodity markets since the PPI pricing date show livestock prices turning up.

At earlier stages of processing, prices of intermediate materials less food and energy rose 0.3 percent in June after two months of little change. Although the index for crude nonfood materials excluding energy posted another large rise in June, the recent increases may reflect in part seasonal adjustment difficulties.

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

	Relative Importance Dec. 1983	1983	1983			1984	
			1983	Q4	Q1	Q2	May
			--Annual rate--			--Monthly rate--	
Finished goods	100.0	.6	1.1	6.0	-3	.0	.0
Consumer foods	24.0	2.3	5.8	17.4	-8.9	-1.2	-.6
Consumer energy	12.0	-9.2	-10.4	-7.2	8.5	.5	-.2
Other consumer goods	41.9	1.9	1.5	4.7	1.1	.1	.3
Capital equipment	22.2	1.9	1.8	4.3	2.2	.2	.0
Intermediate materials ²	94.8	1.5	2.5	2.6	3.6	.3	.5
Exc. energy	79.5	3.0	4.1	3.5	2.1	.1	.3
Crude food materials	52.8	8.0	12.1	13.7	-22.1	-2.7	-2.3
Crude energy	31.3	-4.6	-2.3	-1.3	3.8	.4	.2
Other crude materials	15.9	15.5	2.4	-9.2	30.0	2.6	1.2

1. Changes are from final month of preceding period to final month of period indicated.

2. Excludes materials for food manufacturing and animal feeds.

ERRATA

As a result of a word-processing error, one column of data from the table on page II-5 of the Greenbok was omitted. A corrected table is shown on the next page.

PERSONAL INCOME AND EXPENDITURES
(Based on seasonally adjusted data)

	1983	1984		1984		
	04	01	May	Mar.	Apr.	May
	--Percent change from previous quarter ¹ --			--Percent change from previous month ¹ --		
Total personal income						
Nominal	11.1	13.5	7.4	6.4	7.1	7.2
Real ²	8.1	9.4	n.a.	2.0	5.4	--
Disposable personal income						
Nominal	11.0	14.1	7.2	7.2	6.9	6.3
Real ²	8.0	10.0	n.a.	2.4	5.2	--
Personal saving rate (percent)	5.2	5.9	n.a.	6.6	5.7	5.2
	--Changes in billions of dollars from previous quarter--			--Changes in billions of dollars from previous month--		
Total expenditures	49.8	55.3	56.9	5.4	36.1	24.5
Durables	15.8	16.5	16.2	-2.0	7.1	13.6
New autos	4.2	6.3	4.5	-2.7	-6	7.9
Personal-use trucks	2.5	.7	3.6	3.2	1.6	.4
Furniture & appliances	4.7	4.2	3.3	-.2	3.9	.5
Nondurables	10.2	18.2	18.4	-2.2	20.2	4.0
Food	4.2	9.3	7.9	-4.3	13.4	-.2
Apparel	5.5	3.4	8.1	-2.1	4.8	4.3
Services	23.8	20.6	22.2	9.6	8.8	6.9

1. Changes from previous quarter are at compound rates; monthly changes are not compounded.

2. Personal income is deflated by the implicit deflator for personal consumption expenditures.

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

July 13, 1984

	1983		1984				Growth from Q4 1983 to June 1984
	Q3	Q4	Q1	Q2	May	June	
----- Percentage change at annual rates -----							
1. M1	9.5	4.8	7.2	6.1	12.8	11.5	7.5
2. M2	6.9	8.5	7.0	6.9	8.7	7.3	7.1
3. M3	7.4	9.8	9.0	10.2	11.3	8.6	9.8
							Levels in billions of dollars June 1984
<u>Selected components</u>							
4. Currency	9.1	9.7	8.7	7.2	8.7	10.2	154.2
5. Demand deposits	4.0	-0.5	1.2	3.6	-0.5	15.7	248.4
6. Other checkable deposits	21.2	9.6	16.2	9.6	41.4	7.0	138.6
7. M2 minus M1 ²	6.1	9.7	6.9	7.2	7.5	5.9	1726.6
8. Overnight RPs and Eurodollars, NSA ³	-8.1	23.4	19.3	-6.1	39.7	-48.6	56.9
9. General purpose and broker/dealer money market mutual fund shares, NSA	-13.1	-1.2	9.8	15.3	3.3	18.9	148.7
10. Commercial banks	12.2	12.4	5.4	6.6	4.9	8.7	738.2
11. Savings deposits, SA, plus MMDAs, NSA ⁴	11.0	5.9	6.5	4.8	-4.8	1.0	372.8
12. Small time deposits	13.7	19.3	4.4	8.5	15.2	16.6	365.4
13. Thrift institutions	7.3	7.3	6.4	6.5	6.6	7.8	789.6
14. Savings deposits, SA, plus MMDAs, NSA ⁴	1.0	-7.0	-0.9	2.2	-1.8	-9.2	324.8
15. Small time deposits	12.3	18.8	11.8	9.6	12.7	19.9	464.8
16. M3 minus M2 ⁵	9.8	15.8	17.6	24.4	21.5	14.2	563.5
17. Large time deposits	11.9	15.7	24.8	30.6	38.1	34.7	377.6
18. At commercial banks, net ⁶	-4.6	-0.4	10.0	23.5	36.6	26.6	248.9
19. At thrift institutions	63.5	58.1	59.0	44.9	40.2	51.5	128.7
20. Institution-only money market mutual fund shares, NSA	-17.8	16.6	10.9	6.8	5.7	8.6	42.3
21. Term RPs, NSA	15.2	50.0	18.4	38.1	28.1	-54.9	58.4
22. Term Eurodollars, NSA	-1.7	-3.9	5.7	3.9	6.4	-54.7	90.1
-- Average monthly change in billions of dollars --							
<u>MEMORANDA:</u>							
23. Managed liabilities at commercial banks (24+25)	-2.6	5.3	4.6	6.8	15.5	-1.8	417.7
24. Large time deposits, gross	-2.0	0.1	2.0	7.8	10.5	9.7	312.5
25. Nondeposit funds	-0.6	5.2	2.6	-1.0	5.0	-11.5	105.2
26. Net due to related foreign institutions, NSA	1.3	3.2	2.0	0.9	5.3	-5.6	-34.1
27. Other ⁷	-2.0	2.1	0.6	-1.9	-0.2	-5.9	139.3
28. U.S. government deposits at commercial banks ⁸	1.0	-1.2	1.2	-1.3	-3.7	0.7	12.9

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 May and June at rates of 3.7 and 1.9 percent respectively. At thrift institutions, savings deposits excluding MMDAs increased in May at a rate of 1.4 percent and decreased in June at a rate of 2.7 percent.
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), loans sold to affiliates, 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

	1983	1984 ²			1984 ²		Levels in bil. of dollars JuneP
	Q4	Q1	Q2	Apr.	May	JuneP	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks ³	12.4	14.5	7.8	5.8	14.9	2.4	1658.4
2. Securities	10.8	4.4	-7.5	-10.3	2.5	-14.8	431.7
3. Treasury securities	25.1	-1.9	-7.9	-7.7	10.3	-26.2	183.4
4. Other securities	0.6	9.2	-7.1	-11.8	-3.8	-5.7	248.3
5. Total loans ³	12.9	18.3	13.3	11.7	19.3	8.4	1226.7
6. Business loans ³	10.1	18.8	16.5	8.5	27.7	12.7	455.1
7. Security loans	60.8	0.0	-32.2	-17.6	26.8	-104.7	25.1
8. Real estate loans	10.3	14.5	14.5	13.2	14.0	15.9	359.3
9. Consumer loans	22.1	22.3	22.1	20.2	22.4	22.5	244.2
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	10.6	18.1	16.7	8.2	27.5	13.7	445.5
11. Commercial paper issued by non- financial firms ⁴	25.9	20.1	67.1	88.6	35.7	67.1	58.5
12. Sum of lines 10 & 11	11.8	18.3	21.9	16.6	28.2	19.8	504.0
13. Line 12 plus loans at foreign branches ⁵	12.2	18.1	22.2	17.9	29.2	18.3	524.2
14. Finance company loans to business ⁶	29.0	28.8	n.a.	7.2	7.2	n.a.	n.a.
15. Total bankers acceptances outstanding ⁶	18.9	-22.2	n.a.	54.1	61.2	n.a.	n.a.
16. Total short- and intermediate- term business credit (sum of lines 13, 14 and 15)	15.3	14.9	n.a.	20.2	29.5	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)

	1981	1983	1984			Change from:	
	Cyclical peak	Cyclical low	FOMC Jan. 30	FOMC May 22	July 12	FOMC Jan. 30	FOMC May 22
<u>Short-term rates</u>							
Federal funds ²	20.06	8.42	9.41	9.75	11.25	1.84	1.50
Treasury bills							
3-month	17.01	7.55	8.89	10.04	10.03	1.14	-.01
6-month	15.93	7.62	8.97	10.50	10.57	1.60	.07
1-year	15.21	7.73	9.00	10.70	10.96	1.96	.26
Commercial paper							
1-month	18.63	8.00	9.14	10.16	11.12	1.98	.96
3-month	18.29	7.97	9.13	10.52	11.23	2.10	.71
Large negotiable CDs ³							
1-month	18.90	8.08	9.23	10.47	11.28	2.05	.81
3-month	19.01	8.12	9.31	11.10	11.56	2.25	.46
6-month	18.50	8.20	9.43	11.80	12.18	2.75	.38
Eurodollar deposits ²							
1-month	19.80	8.68	9.53	10.73	11.69	2.16	.96
3-month	19.56	8.71	9.70	11.58	12.13	2.43	.55
Bank prime rate	21.50	10.50	11.00	12.50	13.00	2.00	.50
Treasury bill futures							
Sept 1984 contract	--	8.71	9.57	11.29	10.74	1.17	-.55
c. 1985 contract	--	10.86	10.79	12.68	12.68	1.89	.00
<u>Intermediate- and long-term rates</u>							
U.S. Treasury (constant maturity)							
3-year	16.59	9.33	10.88	12.86	13.19	2.31	.33
10-year	15.84	10.12	11.66	13.52	13.42	1.76	-.10
30-year	15.21	10.27	11.74	13.53	13.20	1.46	-.33
Municipal revenue (Bond Buyer index)	14.24	9.21	9.95 ⁴	10.82 ⁴	10.88	.93	.06
Corporate--A utility Recently offered	18.33*	11.64	12.90 ^e	14.90 ^e	15.05 ^e	2.15	.15
Home mortgage rates							
S&L fixed-rate	18.63	12.55	13.29 ⁵	14.04 ⁵	14.66 ⁵	1.37	.62
FNMA ARM, 1-yr.	N.A.	10.49	11.40 ⁵	13.00 ⁵	13.70 ⁵	2.30	.70
	1982	1983	1984			Percent change from:	
	Lows	Highs	FOMC Jan. 30	FOMC May 22	July 12	FOMC Jan. 30	FOMC May 22
<u>Stock prices</u>							
Dow-Jones Industrial	776.92	1287.20	1221.52	1116.62	1104.57	-9.6	-1.1
NYSE Composite	58.80	99.63	94.12	88.43	86.64	-7.9	-2.0
X Composite	118.65	249.03	217.53	202.68	192.92	-11.3	-4.8
DAQ (OTC)	159.14	328.91	269.23	240.80	234.22	-13.0	-2.7

1. One-day quotes except as noted.

2. Averages for statement week closest to date shown.

3. Secondary market.

*September average.

4. One-day quotes for preceding Thursday.

5. One-day quotes for preceding Friday.

e--estimated. p--preliminary.

PART II - INTERNATIONAL DEVELOPMENTSERRATA

In the table on page IV-19 entitled "Real GNP and Industrial Production in Major Industrial Countries", the entry for Japan's GNP growth in 1983-Q4 should be .8 percent; the entry for GNP growth for 1984-Q1 should be 1.8 percent. In the table on page IV-20 entitled "Consumer and Wholesale Prices in Major Industrial Countries", the entry for percentage change in the Japanese CPI in 1984-Q2 should be .8 percent.