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September 28, 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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SUPPLEMENTAL NOTES

Federal Government Budget Developments

The federal government registered a unified budget deficit of \$33.5 billion in August. This unusually large monthly figure reflected an end-of-month payment of social security benefits, owing to the early Labor Day holiday. In September, outlays are expected to be much lower and the Treasury is likely to run a surplus of between \$15 to \$20 billion. This would bring the fiscal 1984 budget deficit to around \$173 billion, about \$20 billion less than in FY1983.

Meanwhile, a conference agreement on the FY1985 budget resolution has been passed by the Senate and will be brought before the House on Monday. As shown on the table, the resolution projects a deficit of \$181 billion in FY1985, \$193 billion in FY1986, and \$207 billion in FY1987. Underlying the figures are CBO's latest economic assumptions and the defense compromise that assumes annual real spending increases of 5 percent. The House version of the budget resolution includes an increase in the debt ceiling to \$1.82 trillion from the current level of \$1.58 trillion. The Senate needs to take a separate vote on the debt limit, after House action. In addition, Congress needs to provide interim funding for FY1985; the continuing resolution, which has passed the House, covers programs under appropriations yet to be decided.

CONFERENCE AGREEMENT ON FY1985
BUDGET RESOLUTION
(Billions of dollars, unified budget)

	Fiscal Year		
	1985	1986	1987
Receipts	751	811	881
Outlays	932	1,004	1,088
Deficit	181	193	207

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

September 28, 1984

	1983		1984				Growth from Q4 1983 to Aug. 1984
	Q3	Q4	Q1	Q2	July	Aug.	
----- Percentage change at annual rates -----							
1. M1	9.5	4.8	7.2	6.1	-1.3	1.8	5.9
2. M2	6.9	8.5	6.9	6.8	4.8	4.4	6.6
3. M3	7.4	9.8	8.9	10.3	8.4	4.6	9.1
Levels in billions of dollars Aug. 1984							
<u>Selected components</u>							
4. Currency	9.1	9.7	8.7	7.2	6.2	7.7	156.0
5. Demand deposits	4.0	-0.5	1.2	3.4	-5.3	-7.8	245.5
6. Other checkable deposits	21.2	9.6	15.9	9.9	-2.6	12.1	139.7
7. M2 minus M1 ²	6.1	9.7	6.8	7.1	6.7	5.3	1743.1
8. Overnight RPs and Eurodollars, NSA ³	-8.1	23.4	19.3	-8.2	-2.1	34.1	57.9
9. General purpose and broker/dealer money market mutual fund shares, NSA	-13.1	-1.2	9.8	15.5	12.9	0.8	150.6
10. Commercial banks	12.2	12.4	5.4	6.7	7.1	5.7	746.6
11. Savings deposits, SA, plus MMDAs, NSA ⁴	11.0	5.9	6.5	4.9	-5.5	-7.8	368.9
12. Small time deposits	13.7	19.3	4.4	8.6	20.0	19.4	377.8
13. Thrift institutions	7.3	7.3	6.4	6.2	8.7	6.5	798.5
14. Savings deposits, SA, plus MMDAs, NSA ⁴	1.0	-7.0	-0.9	2.6	-15.5	-23.2	314.8
15. Small time deposits	12.3	18.8	11.8	8.9	25.6	26.6	483.7
16. M3 minus M2 ⁵	9.8	15.8	17.6	24.7	22.7	5.4	578.3
17. Large time deposits	11.9	15.7	24.8	31.5	31.7	8.6	391.9
8. At commercial banks, net ⁶	-4.6	-0.4	10.0	24.2	25.5	2.8	255.6
9. At thrift institutions	63.5	58.1	59.0	46.4	42.7	20.6	136.3
20. Institution-only money market mutual fund shares, NSA	-17.8	16.6	10.9	6.8	8.5	2.8	42.7
21. Term RPs, NSA	15.2	50.0	18.4	42.5	-2.0	74.4	63.4
22. Term Eurodollars, NSA	-1.3	-4.4	5.7	0.4	-20.3	-27.6	85.1
-- Average monthly change in billions of dollars --							

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	-2.6	5.3	4.6	7.0	3.5	1.5	423.1
24. Large time deposits, gross	-2.0	0.1	2.0	7.9	2.9	-2.4	313.3
25. Nondeposit funds	-0.6	5.2	2.6	-0.9	0.6	3.9	109.8
26. Net due to related foreign institutions, NSA	1.3	3.2	1.9	0.9	-0.3	-1.4	-35.8
27. Other ⁷	-2.0	2.1	0.6	-1.8	0.9	5.3	145.6
28. U.S. government deposits at commercial banks ⁸	1.0	-1.2	1.2	-1.3	-1.2	1.0	12.7

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 July and August at rates of 5.6 and 10.4 percent respectively. At thrift institutions, savings deposits excluding MMDAs decreased in July and August at rates of 8.1 and 12.3 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. 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			Levels in		bil. of dollars Aug.
	Q4	Q1	Q2	June	July	Aug.	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks ³	12.4	14.0	7.2	1.7	8.5	8.4	1678.4
2. Securities	10.8	4.4	-9.2	-16.8	1.7	10.6	434.4
3. Treasury securities	25.1	-2.3	-11.1	-28.4	7.3	13.1	184.8
4. Other securities	0.6	9.5	-7.9	-8.6	-2.4	9.7	249.6
5. Total loans ³	12.9	17.5	13.1	8.2	11.0	7.6	1244.0
6. Business loans ³	10.1	18.9	17.1	14.5	10.2	9.1	461.8
7. Security loans	60.8	-4.4	-38.5	-115.6	29.8	-112.2	22.3
8. Real estate loans	10.3	14.5	14.5	15.9	11.4	11.6	366.2
9. Consumer loans	22.1	21.5	21.6	21.0	21.2	14.0	251.2
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	10.3	18.2	17.3	15.6	9.1	9.6	451.8
11. Commercial paper issued by non- financial firms ⁴	25.9	20.1	67.1	67.2	59.5	35.2	63.2
12. Sum of lines 10 & 11	11.8	18.4	22.5	21.4	14.6	12.6	515.0
3. Line 12 plus loans at foreign branches ⁵	12.0	18.1	22.6	19.9	13.8	14.1	535.6
14. Total bankers acceptances outstanding ⁶	18.9	-22.2	45.4	16.4	2.9	-11.8	80.9
15. Line 13 plus total bankers acceptances outstanding	13.1	12.7	25.4	19.5	12.4	10.5	616.5
16. Finance company loans to business ⁶	29.0	28.8	8.4	10.7	10.6	n.a.	n.a.
17. Total short- and intermediate- term business credit (sum of lines 15 and 16)	15.1	14.9	23.0	18.2	12.1	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 July 17	FOMC Aug. 21	Sept. 27	FOMC July 17	FOMC Aug. 21
Short-term rates							
Federal funds ²	20.06	8.42	11.21	11.77	10.73	-.48	-1.04
Treasury bills							
3-month	17.01	7.55	10.18	10.42	10.16	-.02	-.26
6-month	15.93	7.62	10.62	10.59	10.26	-.36	-.33
1-year	15.21	7.73	10.96	10.68	10.30	-.66	-.38
Commercial paper							
1-month	18.63	8.00	11.04	11.30	10.68	-.36	-.62
3-month	18.29	7.97	11.18	11.24	10.69	-.49	-.55
Large negotiable CDs ³							
1-month	18.90	8.08	11.28	11.42	10.81	-.47	-.61
3-month	19.01	8.12	11.58	11.56	10.89	-.69	-.67
6-month	18.50	8.20	12.13	11.76	11.15	-.98	-.61
Eurodollar deposits ²							
1-month	19.80	8.68	11.51	11.66	11.24	-.27	-.42
3-month	19.56	8.71	12.01	11.81	11.43	-.58	-.38
Bank prime rate	21.50	10.50	13.00	13.00	12.75	-.25	-.25
Treasury bill futures							
Dec. 1984 contract	--	8.89	11.45	10.59	10.12	-1.33	-.47
Dec. 1985 contract	--	10.86	12.57	11.56	11.15	-1.42	-.41
Intermediate- and long-term rates							
U.S. Treasury (constant maturity)							
3-year	16.59	9.33	13.12	12.44	12.13	-.99	-.31
10-year	15.84	10.12	13.37	12.62	12.31	-1.06	-.31
30-year	15.21	10.27	13.18	12.35	12.12	-1.06	-.23
Municipal revenue (Bond Buyer index)	14.24	9.21	10.88 ⁴	10.47 ⁴	10.47 ⁴	-.41	--
Corporate--A utility Recently offered	18.33*	11.64	14.85 ^e	14.10 ^e	13.83 ^e	-1.02	-.27
Home mortgage rates							
S&L fixed-rate	18.63	12.55	14.68 ⁵	14.39 ⁵	14.29 ⁵	-.39	-.10
FNMA ARM, 1-yr.	N.A.	10.49	13.60 ⁵	13.25 ⁵	13.00 ⁵	-.60	-.25
	1982	1983	1984			Percent change from	
	Lows	Highs	FOMC July 17	FOMC Aug. 21	Sept. 27	FOMC July 17	FOMC Aug. 21
Stock prices							
Dow-Jones Industrial	776.92	1287.20	1112.90	1239.73	1216.76	9.3	-1.9
NYSE Composite	58.80	99.63	87.76	96.30	96.19	9.6	-.1
AMEX Composite	118.65	249.03	193.64	209.78	214.85	11.0	2.4
NASDAQ (OTC)	159.14	328.91	233.50	253.33	250.29	7.2	-1.2

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.

Supplemental Notes

U.S. Merchandise Trade Through August

In August, the U.S. merchandise trade deficit was reduced substantially from the record July rate as imports declined faster than exports. Nonetheless, the deficit for the July-August period combined was a record, more than \$20 billion (annual rate) larger than in either the first or second quarters.

Exports for the July-August period increased strongly from the second-quarter rate. About one-third of the rise was in machinery shipments with the remaining being spread among a broad range of commodity categories, especially automotive cars and parts to Canada and chemicals. Agricultural exports rose slightly on balance as increased shipments of wheat to China and the USSR were largely offset by a decline in exports of soybeans to Europe.

While imports declined sharply in August from the record July amount, the average for the two-month period was still substantially higher than the second quarter rate. More than 40 percent of the increase was in imports of machinery, particularly office machines and electric and electronic machines and equipment. About one-third of the increase was in industrial supplies--especially steel and chemicals. Imports of automotive products in July-August were at about the same rate as in the second quarter; increased shipments of cars from Canada and Japan were offset by a sharp decline in imports of cars from Europe. The value of oil imports for July-August was only slightly higher than the second quarter rate. On a seasonally adjusted basis, the volume of imports averaged about 5.8 million barrels per day for the two-month period as

imports in August dropped to about 5.6 mbd. The average import price of oil also declined in August by over 50 cents per barrel, bringing the average price for the two months to \$28.00 per barrel (on a balance-of-payments basis).

September 28, 1984

U.S. Merchandise Trade
(In billions of dollars, seasonally adjusted annual rates)

	<u>Census Basis 1/ — CIF Value</u>			<u>BOP and GNP Bases 3/</u>
	<u>Exports</u> (1)	<u>Imports 2/</u> (2)	<u>Balance 2/</u> (3)	<u>Balance</u> (4)
Years:				
1981	233.7	273.4	-39.7	-28.0
1982	212.2	254.9	-42.7	-36.5
1983	200.5	269.9	-69.4	-61.1
Quarters:				
1983 - 1	200.9	244.6	-43.6	-37.1
2	194.8	260.3	-65.5	-59.5
3	201.3	280.3	-79.0	-70.0
4	205.6	294.7	-89.2	-77.6
1984 - 1	213.0	332.4	-119.3	-103.4
- 2	212.4	332.2	-119.8	-102.9
- J/A	224.9	368.4	-143.5	n.a.
Months:				
1983 - July	197.8	274.3	-76.5	-67.7
Aug.	199.0	284.9	-85.9	-80.0
Sept.	207.1	281.7	-74.6	-62.3
Oct.	204.4	305.6	-101.2	-98.1
Nov.	204.8	290.2	-85.4	-77.5
Dec.	207.6	288.4	-80.8	-57.2
1984 - Jan.	219.9	333.5	-113.6	-106.5
Feb.	206.5	327.6	-121.1	-90.1
Mar.	212.7	335.9	-123.2	-113.6
Apr.	210.3	356.5	-146.3	-129.1
May	215.4	321.5	-106.1	-89.6
June	211.6	318.5	-106.9	-90.2
July	233.3	402.0	-168.7	-164.2
Aug.	216.4	334.7	-118.3	n.a.

1/ Published monthly by the Census Bureau.

2/ CIF value includes insurance and freight charges for imports only.

3/ Data as defined and used in the Balance of Payments Account and in the GNP Account — does not include insurance and freight charges for imports. In addition, different seasonal factors are used than in Census basis data.