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CLASS III - FOMC

February 7, 1986

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 and Unemployment

Labor demand strengthened considerably in January. Both the household and payroll surveys reported particularly strong gains in employment in January, and the civilian unemployment rate dropped another 1/4 percentage point to 6.7 percent. Nonfarm payroll employment jumped 566,000 last month after seasonal adjustment, the largest monthly rise since September 1983.<sup>1</sup> Hiring remained at a brisk pace in the service-producing sector, with large job gains at retail establishments (207,000), and a continued climb in service industry employment (114,000). At construction sites, employment advanced 157,000 owing to the unusually good January weather. In manufacturing, payrolls rose another 35,000, bringing the cumulative increase in employment since September to 187,000. Factory job gains were fairly widespread at both durable and nondurable goods industries. In addition, although the factory workweek edged down 0.1 to 40.9 hours, but remains at a very high level.

Wage rates, as measured by the hourly earnings index, fell 0.4 percent in January, after a sharp jump in December. The industries in which the index fell sharply in January (construction, retail trade, and services) were the same industries that posted the largest increases in December. Over the past twelve months, the index has increased about 3 percent in the private nonfarm economy and 2-3/4 percent in manufacturing.

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1. Not seasonally adjusted, payroll employment fell 1.5 million in January. However, employment usually declines this time of year and the drop this year was smaller than usual.

CHANGES IN EMPLOYMENT<sup>1</sup>  
(Thousands of employees; based on seasonally adjusted data)

	1984	1985	1985				1985		1986
			Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.
-Average monthly changes-									
Nonfarm payroll employment <sup>2</sup>	327	248	273	188	248	284	242	268	566
Strike adjusted	329	246	267	182	254	283	244	269	533
Manufacturing	52	-14	-26	-43	-40	51	43	50	35
Durable	45	-14	-17	-30	-37	29	19	24	14
Nondurable	7	-1	-9	-12	-3	22	24	26	21
Construction	29	24	28	28	28	13	1	7	157
Trade	106	72	91	77	50	72	33	87	229
Finance and services	106	123	150	94	127	122	158	94	149
Total government	17	36	20	23	80	20	-2	28	-34
Private nonfarm production workers	253	172	182	130	148	226	226	189	486
Manufacturing production workers	33	-15	-33	-47	-27	47	29	59	23
Total employment <sup>3</sup>	269	163	234	-117	306	229	156	237	404 <sup>4</sup>
Nonagricultural	265	183	259	-59	347	184	144	156	n.a.

1. Average change from final month of preceding period to final month of period indicated.

2. Survey of establishments. Strike-adjusted data noted.

3. Survey of households.

4. The January 1986 change is adjusted for the effect of technical changes introduced to reflect new estimates of undocumented immigrants.

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

	1984	1985	1985				1985		1986
			Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.
Civilian, 16 years and older	7.5	7.2	7.3	7.3	7.2	7.0	7.0	6.9	6.7
Teenagers	18.9	18.6	18.5	18.4	18.3	19.0	18.4	18.8	18.4
20-24 years old	11.5	11.0	11.1	11.3	11.0	10.8	11.0	10.6	10.4
Men, 25 years and older	5.7	5.4	5.4	5.4	5.3	5.2	5.2	5.1	5.0
Women, 25 years and older	6.0	5.9	.0	6.0	5.9	5.5	5.6	5.4	5.3
White	6.5	6.2	6.3	6.3	6.2	6.0	5.9	5.9	5.7
Black	15.9	15.1	15.4	15.0	14.8	15.1	15.6	14.9	14.4
Fulltime workers	7.2	6.9	7.0	6.9	6.9	6.7	6.7	6.6	6.4
Memo:									
Total national <sup>1</sup>	7.4	7.1	7.2	7.2	7.0	6.9	6.9	6.8	6.6

1. Includes resident Armed Forces as employed.

HOURLY EARNINGS INDEX<sup>1</sup>  
 (Percentage change; based on seasonally adjusted data)<sup>2</sup>

	1984	1985	1985				1985		1986
			Q1	Q2	Q3	Q4	Nov.	Dec.	Jan.
			--Annual rate--				--Monthly rate--		
Total private nonfarm	3.1	3.0	3.5	3.2	2.0	3.3	.5	.7	-.4
Manufacturing	3.3	3.3	5.2	3.5	2.0	2.3	.4	.4	.1
Durable	3.1	3.4	5.9	3.4	2.3	1.9	.4	.4	.2
Nondurable	3.7	3.1	4.0	3.8	1.5	3.0	.4	.4	.0
Contract construction	1.3	1.1	5.2	-.1	-1.2	.5	-.4	1.2	-.8
Transportation and public utilities	2.9	3.0	2.7	2.9	2.3	4.1	.7	.7	-.2
Total trade	2.6	1.9	1.8	2.1	1.2	2.6	.5	.6	-.6
Services	4.0	4.3	2.1	5.7	3.8	5.5	.6	1.0	-.9

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

2. Changes over periods longer than one quarter are measured from final quarter of preceding period to final quarter of period indicated. Quarterly changes are compounded annual rates.

APPENDIX\*  
THE FEDERAL BUDGET

The administration presented its fiscal 1987 federal budget to Congress on Wednesday, February 5. It contains current services estimates of outlays, receipts, and the deficit as well as proposed deficit-reducing measures needed to meet the deficit targets mandated under the Gramm-Rudman-Hollings Act (see table 1).<sup>1</sup> Current services deficits, although declining, are estimated to remain large in the near term--between 3 and 5 percent of GNP--and, as has been the case in the past few years, the administration's proposals are focused largely on outlay cuts in domestic nonentitlement programs. If the congressional debate on the budget follows the pattern of recent years, the administration's figures--for current services and suggested savings--will provide a benchmark for development of alternative budget programs.<sup>2</sup>

Current Services Budget

The current services budget is an estimate of receipts and outlays as they would evolve under the administration's economic assumptions in the absence of changes in federal laws or policies. Cost estimates are typically raised through time to maintain program levels in real terms.

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1. A three-judge District Court today ruled unconstitutional that portion of the act requiring the General Accounting Office to prepare the sequestration report and declared the order issued on February 1 sequestering FY1986 funds invalid. However, the court was required by the act to stay their decision until after an appeal to the Supreme Court. A ruling by the higher court is not expected until several months after the sequester order takes effect on March 1. Although the act has fall-back provisions for Congress to follow in this event, they are considered to be more difficult to implement.

2. The Congressional Budget Office has scheduled release of its annual budget review for February 18. Press reports indicate that CBO's FY1987 deficit estimate is about \$180 billion, close to the administration's current services figure.

In addition, for entitlement programs, increases in the number of eligible participants are taken into account. Interest outlays are allowed to rise or fall to meet the change in costs of servicing the public debt. After removing the effects of different economic assumptions, there has usually been little disagreement among analysts over current services estimates. In the past few years, however, the administration has set "current services" defense outlays at levels that would provide the substantial real growth that has been the administration's policy; subsequent legislation that provided slower military outlay growth has been a sizable portion of the "budget cuts" of recent years. In this year's document the administration's current services defense figures are based on those in the FY1986 Congressional Budget Resolution, which called for no change in budget authority for FY1986 and 3 percent real growth in FY1987 authority and beyond. The resulting defense outlay figures are considerably lower than those reported in previous current services budgets.<sup>1</sup>

Current services receipts are estimated to grow at a rapid 9 percent rate in FY1987 and FY1988 before slowing to around a 6-3/4 percent annual rate during the FY1989-91 period. This receipts pattern depends, of course, on the economy achieving the real GNP growth rates and other favorable economic assumptions shown in table 2. Other factors the same, a change of one percentage point in real GNP growth in FY1987 would alter receipts, and hence the deficit, by roughly \$6-1/2 billion. In addition,

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1. Actual budget authorization for FY1986 was less than the budget resolution compromise and the sequestration order issued on February 1 reduced defense authority even further to a level below FY1985 authority. Even so, defense outlays will continue to rise because there is a substantial backlog of unspent obligations and unused authority from prior years.

receipts growth is boosted in FY1988 by the scheduled increase of the combined employer-employee social security tax rate from 14.3 percent to 15.02 percent; the rate goes to 15.3 percent on January 1, 1990. Moreover, the budget receipts estimates assumed the price of oil would remain close to the levels prevailing at the end of last year. Although lower oil prices may bolster economic activity and raise revenues over time, they also imply several billion dollars less in windfall profits taxes in FY1987.

Outlay growth under the current services budget is estimated to slow gradually from around 5 percent in FY1987 and FY1988 to 4 percent in later years. About half of the growth in current services outlays during the entire period can be accounted for by the 8 to 9 percent per annum rise in nominal defense outlays. Social security and medicare payments grow nearly 8 percent per year owing to the increased number of aged and adjustments to payments due to inflation. Smaller deficits and the administration's assumed drop in average interest rates over the period mean debt service outlays level off by FY1988 and then decline in subsequent years. Current services agricultural spending declines between FY1986 and FY1987 as the administration expects a reduction in farm price supports and related commodity credit corporation program payments as a result of reforms in the recently enacted farm bill together with assumptions of more normal farm supply conditions.

With receipts now shown growing more rapidly than outlays, current services budget deficits are markedly different than indicated in previous years (see table 3). The current services deficit for FY1987 is now indicated to be \$182 billion, and the deficit declines to \$104 billion--or

only 1.7 percent of GNP--by FY1991. In the 1985 and 1986 budgets, current services deficits remained above \$200 billion. The lower deficits shown this year reflect primarily the more moderate growth path of defense outlays and cuts in interest outlays. These declining current services deficits have significantly different implications--a shift from stimulus to fiscal restraint. Because they apply to an economy that is assumed to be drifting up to potential GNP levels, most of the decline in the current services deficit is a reduction in the structural deficit rather than reflecting cyclical movements in the economy.

#### Budget Trends

Before turning to the President's budget proposals, it is instructive to examine how the budget has changed over the past four years. Such an analysis may provide clues as to why deficit reduction has been so difficult. After all, since 1982, the Congress and administration have compromised on measures to reduce the deficit, yet in the current fiscal year the size of the deficit is still estimated to be over \$200 billion, nearly 5 percent of GNP.

The level of federal receipts has risen \$135 billion between FY1981 and FY1985, an average annual growth rate of 7 percent. The 1981 tax cuts reduced the level of receipts, and all types of revenue except those for social insurance have fallen as a percent of GNP. Consequently, total revenues in 1985 amounted to 18.4 percent of GNP compared with 20.1 percent in 1981 (table 4). Historically, total receipts averaged 17.6 percent of GNP in the fifties, 18.2 percent in the sixties, and 18.3 percent in the seventies. Hence, although the net effect of the tax changes enacted since 1981 has been a substantial reduction in revenues

from what would have occurred, total federal receipts relative to GNP are not particularly low by historical standards.

In contrast to the receipts pattern, outlays have grown by \$268 billion or 9 percent at an annual rate. Table 5 compares the levels of spending for major budget categories in fiscal 1981 with those in 1985, and shows how the increase has been distributed. About a third of the rise reflects the steady increase in defense spending. Social security and medicare payments accounted for 28 percent and interest on the national debt accounted for another 20 percent of the rise. Increases in other income security and agricultural programs have been significant, but smaller. Nominal spending for the remainder of the functional categories has changed little or declined.

The trends shown in table 5 have been influenced both by economic events and by legislative actions and it is difficult to distinguish the two effects in many cases. However, CBO has estimated that between 1981 and 1985 legislation to reduce entitlement and discretionary domestic spending has just about offset the acceleration in defense outlays experienced over the same period. Further spending reductions would have been necessary to match the revenue losses and to offset or curtail the increases in interest outlays.

#### The Budget Proposals

This year's budget proposals would continue the trends of the 1981-85 period (see table 6). Receipts initiatives--amounting to increases of \$6.3 billion in FY1987--are spread over a number of items. The item with the largest budget impact is the extension of the 16 cent cigarette excise tax, which is scheduled to expire on March 14; it adds \$1.7 billion

to FY1987 revenues. As a partial offset, there are two small tax-reducing measures that had been proposed in earlier years are again included; these are a higher-education tax incentive program and tuition tax credits for primary and secondary education at private schools.

Proposed outlay savings relative to the current services baseline total \$29 billion in FY1987 and grow to \$64 billion by FY1989. There are no changes contemplated for social security retirement benefits, and defense outlays are reduced only slightly from the revised current services baseline. The defense savings result from lower than expected inflation and pay assumptions. For low-income support programs other than social security, the budget shows only small reductions.

The bulk of the spending cuts--\$25 billion in FY1987--are proposed for nondefense programs and are similar to requests made in earlier budgets. Medicare, Medicaid and other federal health programs, which have grown rapidly despite cut-backs in previous years from current services estimates, account for \$8.1 billion of the savings. There are also sizable reductions planned for housing assistance, student aid, and other education programs. Federal civilian retirement costs would be reduced through a number of program reforms and an increase in the employee payroll contribution from the current 7 percent to 9 percent. Also, the budget proposes federal civilian pay increases of 3 percent in January of each year; military pay increases would continue to be in October and are scheduled to be 4 percent in FY1987 and 3 percent in subsequent years. Nearly all nondefense discretionary programs would face some reduction from current services levels through program consolidations, reforms, and shifts to state and local governments; there are a number of

program eliminations, including the direct loan program of the Small Business Administration, certain regional development administrations and commissions, and the Interstate Commerce Commission.

This year the administration is again requesting legislation to allow for sale of certain assets. Physical assets contemplated for sale include certain surplus property, the five power marketing administrations operated by the Department of Energy (DOE), and the two Naval petroleum reserves--oil fields owned and operated by DOE. The two sales would total \$1.5 billion in FY1987 and \$4 billion in FY1988. Financial assets would also be sold. The budget proposal calls for a demonstration sale of a portion of the government's direct loans portfolio in order to establish a market price of such assets. These sales are expected to yield \$1.7 billion in FY1987 and \$0.7 billion in FY1988. Other "privatization" initiatives are proposed including a review of the feasibility of selling the Federal Housing Administration's mortgage insurance business.

The combination of the economic scenario assumed in the budget and enactment of the President's program would put the deficit on the path envisioned in the Gramm-Rudman-Hollings legislation, with the deficit-GNP ratio falling about one percentage point per year. Enactment would also extend the trend in budget outlay composition experienced between 1981-85. By FY1991 the proposed budget shows defense spending as a third of total outlays and social security payments about a fourth. The remainder of the budget would decline from 56 percent of the total in FY1981 to 44 percent in FY1991.

The administration's budget release is the first step in the Congressional budget process that was revised and accelerated in the

Gramm-Rudman-Hollings Act. As envisioned in the act, Congress is to consider alternatives and complete action on a joint budget resolution by April 15. It is anticipated that the resolution will then lead to enactment of appropriations and other necessary legislation by mid-summer. In any event, OMB and CBO are required to submit a forecast of the FY1987 budget deficit and the economy in mid-August, taking into account enacted legislation to date. If their deficit estimate exceeds the requirements of the act, the sequester process would begin, with an order taking effect in October. However, Congress could continue to pass legislation in order to meet the target and avoid sequestration until the order became effective. Should appropriations bills not be passed, the sequestered amounts would be based on FY1986 budget authority, which is generally lower than the authority required to meet the current services estimates in the FY1987 budget, especially for defense.

Table 1  
 ADMINISTRATION CURRENT SERVICES BUDGET  
 (Fiscal years)

	1986	1987	1988	1989	1990	1991
-----Billions of dollars-----						
Revenues	777	844	927	989	1,053	1,120
Outlays	982	1,026	1,077	1,128	1,179	1,224
Deficit	206	182	150	139	126	104
Memo:						
Deficit reduction proposals	3	38	56	71	91	105
Deficit with proposals	203	144	94	68	36	-1

Table 2  
 ECONOMIC ASSUMPTIONS  
 (Calendar years)

	1986	1987	1988	1989	1990	1991
-----Percent change, Q4 to Q4-----						
Nominal GNP	8.0	8.3	7.7	7.0	6.2	5.6
Real GNP	4.0	4.0	4.0	3.7	3.6	3.5
GNP deflator	3.8	4.1	3.6	3.2	2.5	2.0
-----Percent, fourth quarter-----						
Unemployment rate	6.7	6.5	6.2	6.0	5.7	5.5
Treasury bill rate	7.2	6.1	5.3	4.5	4.1	4.0

Table 3

## ADMINISTRATION CURRENT SERVICES DEFICIT ESTIMATES

Budget	Fiscal years					
	1986	1987	1988	1989	1990	1991
-----Billions of dollars-----						
1985	233	237	221	208	n.a.	n.a.
1986	230	246	248	233	224	n.a.
1987	206	182	150	139	126	104
-----Percent of GNP-----						
1985	5.4	5.1	4.4	3.8	n.a.	n.a.
1986	5.4	5.3	4.9	4.3	3.9	n.a.
1987	4.9	4.0	3.1	2.6	2.2	1.7

Table 4

BUDGET RECEIPT TRENDS 1981-1985  
(Fiscal years, billions of dollars)

	1981	1985	Increase	Memo: Level as a percent of GNP		
				1981	1985	1991*1
Total receipts	559.3	734.1	134.8	20.1	18.4	18.6
Individual	285.9	334.5	48.6	9.6	8.4	8.6
Corporate	61.1	61.3	0.2	2.0	1.5	2.1
Social insurance	182.7	265.2	82.5	6.1	6.6	6.8
Excise and other	69.6	73.1	3.5	2.3	1.8	1.2

1. Calculated from the FY1987 Budget (February 1986).

Table 5  
BUDGET OUTLAY TRENDS 1981-1985  
(Fiscal years)

Budget function	Level: (Billion of dollars)		Change:		Memo: Level as a percent total outlays		
	1981	1985	Billions of dollars	Annual percentage rate	1981	1985	1991 <sup>3</sup>
Total outlays	678.2	946.3	268.1	8.7	100.0	100.0	100.0
Defense	157.5	252.7	95.2	12.5	23.2	26.7	32.6
Interest	68.7	129.4	60.7	17.2	10.1	13.7	10.3
Social security (OASDI)	139.6	188.6	49.0	7.8	20.6	19.9	23.5
Medicare	39.1	65.8	26.7	13.9	5.8	7.0	8.8
Income security <sup>1</sup>	99.7	128.2	28.5	6.5	14.7	13.5	11.8
Agriculture <sup>2</sup>	11.3	25.6	14.3	22.7	1.7	2.7	1.0
Health	26.9	33.5	6.6	5.6	4.0	3.5	3.6
International affairs	13.1	16.2	3.1	5.5	1.9	1.7	1.6
Transportation	23.4	25.8	2.4	2.5	3.5	2.7	2.1
Science	6.5	8.6	2.1	7.2	1.0	.9	1.0
Natural resources	13.6	13.4	-.2	-.4	2.0	1.4	1.0
Regional Development	10.6	7.7	-2.9	-7.7	1.6	.8	.5
Commerce-Housing	8.2	4.2	-4.0	-15.4	1.2	.4	-.2
Education	33.7	29.3	-4.4	-3.4	5.0	3.1	2.3
Energy	15.2	5.7	-9.5	-21.7	2.2	.6	.3
Other	11.1	11.6	.5	1.1	1.6	1.2	.1

1. The FY1985 figure was elevated by a one-time \$14 billion payment for HUD-guaranteed notes to finance low-income housing. Without these payments, the annual rate of change would have been 3.5 percent.

2. Year-to-year agricultural outlays tend to be especially volatile. The change from 1981 to the average of 1984 and 1985 was an annual rate of 14.8 percent.

3. Calculated from policy levels in the FY1987 Budget (February 1986).

Table 6

DEFICIT REDUCTION PROPOSALS IN THE FY1987 BUDGET  
(Fiscal years, billions of dollars)

	1987	1988	1989
Total savings	38.2	56.4	71.4
Receipts	6.3	5.9	6.9
Outlays	28.7	45.9	63.8
Defense	2.7	4.5	6.3
Low-income benefits <sup>1</sup>	0.7	0.9	1.1
Human and social services <sup>2</sup>	15.4	24.0	31.0
Other <sup>3</sup>	7.5	13.6	16.0
Changes in user fees <sup>4</sup>	2.4	2.8	3.2
Net asset sales	3.2	4.6	0.7

1. Includes, among other things, aid for families with dependent children and food stamp outlays.

2. Includes spending for education, housing assistance, Medicare, and Medicaid.

3. Major items in this category are outlays for agriculture, rural housing, transportation, community and regional development, and civilian agency pay.

4. Includes off-setting collections which appear in the budget as negative outlays.

MONETARY AGGREGATES  
(Based on seasonally adjusted data unless otherwise noted)<sup>1</sup>

February 7, 1986

	1984:Q4		1985		1986		Growth from Q4 1984 to Dec. 1985 <sup>1</sup>
	to 1985:Q4	Q3	Q4	Nov.	Dec.	Jan. <sup>pe</sup>	
----- Percentage change at annual rates -----							
1. M1 <sup>2</sup>	11.6 (12.1)	15.0	8.9	13.4	13.2	3	11.9 (12.4)
2. M2	8.6	10.2	5.9	6.6	7.8	2	8.6
3. M3	7.9	8.2	6.7	5.9	7.2	7	7.9
							Levels in billions of dollars Dec. 1985
<u>Selected components</u>							
4. Currency	7.6	9.1	7.4	8.5	5.6	6	170.8
5. Demand deposits	8.3	11.9	4.7	10.5	20.3	-8	270.8
6. Other checkable deposits	21.7	26.1	17.2	23.0	10.2	18	177.2
7. M2 minus M1 <sup>3</sup>	7.7	8.7	4.9	4.6	6.0	1	1938.9
8. Overnight RPs and Eurodollars, NSA	21.0	19.3	27.6	30.4	71.5	-43	72.9
9. General purpose and broker/dealer money market mutual fund shares, NSA	9.1	4.1	0.0	-3.4	-4.8	9	175.8
10. Commercial banks	9.2	7.8	4.7	7.2	7.5	7	841.3
11. Savings deposits, SA, plus MMDAs, NSA <sup>4</sup>	19.0	19.2	11.2	13.6	6.9	11	457.1
12. Small time deposits	-0.6	-4.4	-2.7	-0.3	8.2	3	384.2
13. Thrift institutions	5.1	3.9	1.8	2.7	4.5	0	851.0
14. Savings deposits, SA, plus MMDAs, NSA <sup>4</sup>	14.2	16.7	9.1	6.1	-3.0	1	356.9
Small time deposits	-0.5	-4.6	-3.1	0.5	9.8	0	494.1
minus M2 <sup>5</sup>	5.4	0.4	9.9	3.0	4.8	27	649.5
17. Large time deposits	6.5	-3.0	13.2	12.2	9.0	25	441.0
18. At commercial banks, net <sup>6</sup>	6.0	-3.2	16.1	12.6	5.1	35	281.3
19. At thrift institutions	7.4	-2.8	8.5	11.5	16.0	8	159.7
20. Institution-only money market mutual fund shares, NSA	11.1	1.3	3.1	22.7	0.0	37	64.5
21. Term RPs, NSA	5.6	-8.1	35.4	62.9	33.9	2	76.4
22. Term Eurodollars, NSA	-4.6	-4.9	-9.0	1.5	-39.5	-20	76.4
-- Average monthly change in billions of dollars --							

**MEMORANDA:**

23. Managed liabilities at commercial banks (24+25)	2.6	2.4	5.4	4.0	8.2	9	465.5
24. Large time deposits, gross	0.9	1.2	2.3	2.1	0.5	9	337.1
25. Nondeposit funds	1.7	1.2	4.1	1.9	7.7	0	128.4
26. Net due to related foreign institutions, NSA	0.4	1.3	0.8	-1.7	0.6	4	-27.7
27. Other <sup>7</sup>	1.3	-0.1	3.3	3.6	7.1	-4	156.1
28. U.S. government deposits at commercial banks <sup>8</sup>	0.2	-0.7	1.2	9.6	5.5	0	18.9

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. Figures in parentheses calculated from Q2 1985 base.

3. Nontransactions M2 is seasonally adjusted as a whole.

4. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs decreased during December 1985 and January 1986 at rates of 5.7 percent and 3 percent respectively. At thrift institutions, savings deposits excluding MMDAs decreased during December 1985 at a rate of 2.0 percent and increased during January 1986 at a rate of 5 percent.

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

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

ists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold 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 and note balances at commercial banks.

pe--preliminary estimate

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

	1985					1986	Levels in bil. of dollars January <sup>P</sup>
	Q2	Q3	Q4	Nov.	Dec.	Jan. <sup>P</sup>	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	9.3	8.6	11.8	16.4	16.6	15.0	1919.2
2. Securities	5.5	12.4	19.6	30.8	26.2	24.8	454.4
3. U.S. government securities	0.0	9.0	-3.5	22.2	-18.8	-28.4	264.3
4. Other securities	16.1	18.8	61.3	45.7	103.0	107.3	190.1
5. Total loans	10.4	7.4	9.4	12.0	13.7	12.0	1464.8
6. Business loans	2.6	2.4	5.5	8.9	8.1	-0.2	493.8
7. Security loans	87.8	-19.0	3.1	-9.5	25.5	140.6	42.9
8. Real estate loans	12.4	11.2	13.0	13.6	11.5	9.1	426.4
9. Consumer loans	14.9	11.1	8.8	10.7	11.4	22.4	291.8
10. Other loans	7.1	12.3	14.3	22.9	34.3	9.2	209.9
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	3.6	2.2	5.0	8.4	7.1	-0.5	489.6
12. Loans at foreign branches <sup>2</sup>	17.0	-4.1	-6.2	6.3	-6.2	0.0	19.3
13. Sum of lines 11 & 12	4.0	2.0	4.5	8.1	6.4	-0.5	508.9
Commercial paper issued by nonfinancial firms <sup>3</sup>	33.8	-1.5	55.5	64.6	36.2	-14.9	87.6
15. Sums of lines 13 & 14	7.9	1.5	11.5	16.0	11.3	-2.4	596.6
16. Bankers acceptances: U.S. trade related <sup>4,5</sup>	-12.2	-1.1	-13.8	-42.0	21.8	n.a.	33.7 (Dec)
17. Line 15 plus bankers acceptances: U.S. trade related	6.7	1.1	10.0	12.6	12.1	n.a.	631.5 (Dec)
18. Finance company loans to business <sup>4</sup>	8.0	3.1	n.a.	27.3	n.a.	n.a.	148.4 (Nov)
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	6.9	1.5	n.a.	15.6	n.a.	n.a.	773.6 (Nov)

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. Consists of acceptances that finance U.S. imports, U.S. exports and domestic shipment and storage of goods.

SELECTED FINANCIAL MARKET QUOTATIONS 1/  
(percent)

	1982/1983	1984	1985			1986	Change from:	
	cyclical low	Highs	March highs	June lows	FOMC Dec	Feb 6	1984 highs	FOMC Dec
Short-term rates								
Federal funds 2/	8.46	11.63	8.58	7.38	8.05	7.94	-3.69	-0.11
Treasury bills 3/								
3-month	7.08	10.67	8.80	6.66	7.00	7.10	-3.57	0.10
6-month	7.62	10.77	9.13	6.81	7.00	7.13	-3.64	0.13
1-year	7.73	11.13	9.25	6.98	7.02	7.12	-4.01	0.10
Commercial paper								
1-month	8.00	11.42	8.94	6.95	7.77	7.65	-3.77	-0.12
3-month	7.97	11.35	9.12	7.01	7.66	7.60	-3.75	-0.06
Large negotiable CD's 3/								
1-month	8.08	11.52	8.89	7.09	7.69	7.69	-3.83	-
3-month	8.12	11.79	9.29	7.18	7.63	7.70	-4.09	0.07
6-month	8.20	12.30	9.92	7.30	7.63	7.71	-4.59	0.08
Eurodollar deposits 4/								
1-month	8.68	11.89	8.89	7.45	7.98	7.91	-3.98	-0.07
3-month	8.71	12.20	9.58	7.50	7.86	7.93	-4.27	0.07
Bank prime rate	10.50	13.00	10.50	9.50	9.50	9.50	-3.50	-
Treasury bill futures								
March 1986 contract			10.58	7.47	6.68	6.89		0.21
June 1986 contract			10.74	7.78	6.76	6.87		0.11
Intermediate- and long-term rates								
U.S. Treasury (constant maturity)								
3-year	9.33	13.49	11.22	8.73	8.18	8.22	-5.27	0.04
10-year	10.12	13.99	12.02	9.83	9.04	9.03	-4.96	-0.01
30-year	10.27	13.94	11.97	10.23	9.35	9.25	-4.69	-0.10
Municipal revenue 5/ (Bond Buyer index)	9.21	11.44	10.25	9.10	8.96	8.24	-3.20	-0.72
Corporate—A utility 6/ Recently offered	11.64	15.30	13.23	11.50	10.95	10.57	-4.73	-0.38
Home mortgage rates 6/								
S&L fixed-rate	12.55	14.68	13.29	12.05	11.14	10.89	-3.79	-0.25
S&L ARM, 1-yr.	n.a.	12.31	11.14	9.83	9.17	8.97	-3.34	-0.20
	1983	1984	1985		1986	Percent change from:		
	Highs	Lows	Highs	FOMC Dec	Feb 6	1984 lows	FOMC Dec	
Stock prices								
Dow-Jones Industrial	1287.20	1086.57	1553.10	1544.50	1600.69	47.32	3.64	
NYSE Composite	99.63	85.13	121.90	121.17	123.14	44.65	1.63	
AMEX Composite	249.03	187.16	246.13	243.85	243.71	30.21	-0.06	
NASDAQ (OTC)	328.91	225.30	325.16	323.25	340.76	51.25	5.42	

1/ One-day quotes except as noted.

2/ Averages for two-week reserve maintenance period closest to date shown. Last observation is the average to-date for the maintenance period ending February 12, 1986

3/ Secondary market.

4/ Averages for statement week closest to date shown.

5/ Thursday quotes.

6/ Friday quotes.

e—estimate