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May 16, 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

### Housing market activity

Housing starts in April remained in the elevated range recorded in the first three months of the year. At a 2.01 million unit annual rate, starts in April were up 4 percent from a month earlier; the monthly advance was about evenly divided (in percentage terms) between single- and multifamily units. In the first four months of 1986, starts averaged 1.99 million units at an annual rate, well above the 1.7 to 1.75 million units started in each of the previous three years.

Issuance of residential building permits rose 3 percent in April. Permit issuance, which tends to be a less volatile measure of the onset of construction activity, has been in line with housing starts in recent months.

### Producer price index

The producer price index for finished goods fell 0.6 percent in April. The decline primarily reflected an 8.4 percent drop in the index for energy products. Gasoline prices decreased 10.4 percent in April, after their record 22 percent drop in March, while natural gas prices were down 5.6 percent--their first major reaction to the lower prices for petroleum products. Finished food prices edged up 0.1 percent in April as sizable increases for coffee and fresh vegetables were largely offset by declines for beef and fish.

Excluding food and energy, the PPI increased 0.2 percent in April, about the same pace that has prevailed for the past year. Consumer goods excluding food and energy were up 0.2 percent in April, pushed up by a 1.6

percent rise in passenger car prices, while capital equipment prices increased 0.3 percent.

Intermediate materials prices excluding food and energy fell 0.3 percent in April, with declines registered for a number of products that use petroleum as a primary input. Crude food prices fell 3.1 percent in April after a 1 percent decline in March; the decrease reflected lower prices for livestock and grains.

### Industrial Production

Industrial production increased an estimated 0.2 percent in April following revised declines of 0.8 and 0.7 percent in February and March, respectively. The April increase was concentrated in motor vehicles for consumer and business use, where output rebounded from its March decline. Output of consumer goods increased 0.6 percent in April, after declines in the preceding three months, as auto assemblies rose to a seasonally adjusted annual rate of 8.1 million units following a 7.7 million unit rate in March. Production of durable consumer goods other than motor vehicles again changed little while output of nondurable consumer goods edged up 0.2 percent. Output of business equipment rose 0.6 percent after declines of about 1 percent in each of the previous two months. The increase was spurred by a 6.0 percent gain in transit equipment; in addition to a rise in output of autos for business use, production of trucks and aircraft also advanced. Production of manufacturing, power, and commercial equipment was about unchanged while output of construction, mining, and farm equipment continued to contract. Defense and space equipment, which had declined around the turn of the year, rose in April for the second successive month. Output of materials was again little changed and, on balance, has been stagnant since mid-1984.

PRIVATE HOUSING CONSTRUCTION  
(Thousands of units, SAAR)

	1985 Q4 <sup>1</sup>	1986				Percent change in Apr. from	
		Q1 <sup>1</sup>	Feb. <sup>1</sup>	Mar. <sup>1</sup>	Apr. <sup>2</sup>	Previous Month	Year Earlier
Starts	1773	1988	2001	1930	2009	4.1	8.5
1-family	1074	1248	1202	1207	1256	4.1	11.2
2- or more-family	699	740	799	723	753	4.1	4.3
Permits issued	1737	1834	1808	1834	1883	2.7	11.2
1-family	960	1045	1033	1043	1138	9.1	21.1
2- or more-family	777	789	775	791	745	-5.8	-1.2
Mobile home shipments	288	262	266	240	n.a.	n.a.	n.a.

1. Revised.

2. Preliminary.

n.a.—Not available.

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

	Relative Importance Dec. 1985	1984	1985	1985		1986	1986	
				Q3	Q4	Q1	Mar.	Apr.
				-Annual rate-		-Monthly rate-		
Finished goods	100.0	1.7	1.8	-2.4	9.2	-12.4	-1.1	-.6
Consumer foods	24.5	3.5	.5	-2.9	16.0	-7.5	0.3	.1
Consumer energy	12.5	-4.1	-.3	-11.3	20.7	-67.6	-13.4	-8.4
Other consumer goods	40.3	2.2	2.7	.0	4.4	2.9	.8	.2
Capital equipment	22.7	1.8	2.7	-.9	5.6	.7	.3	.3
Intermediate materials <sup>2</sup>	95.3	1.7	.0	-1.3	2.9	-11.9	-1.3	-1.0
Exc. energy	79.6	2.1	-.1	-.7	.0	-1.2	.0	-.3
Crude food materials	52.5	-1.2	-6.4	-20.6	47.0	-25.2	-1.0	-3.1
Crude energy	31.6	-1.3	-4.9	-5.9	-4.0	-50.1	-8.9	-7.7
Other crude materials	15.9	-3.4	-4.3	-4.4	1.5	-3.7	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.

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

	1985 Q4	1986 Q1	1986		
			Feb.	Mar.	Apr.
	--Annual rate--		--Monthly rate--		
Total Index	1.9	1.3	-0.8	-0.7	.2
Products	1.7	.5	-0.9	-0.7	.3
Final products	1.6	-1.0	-1.1	-1.0	.4
Consumer goods	4.9	1.6	-0.5	-0.8	.6
Durable	6.5	2.9	-0.3	-2.7	2.0
Nondurable	4.4	1.2	-.6	-.1	.2
Equipment	-1.9	-3.9	-1.7	-1.1	.0
Business	-3.5	1.7	-1.0	-0.9	.6
Defense and space	10.3	-4.0	-1.4	1.0	.5
Oil and gas drilling	-30.2	-59.7	-15.2	-16.9	-18.0
Intermediate products	2.1	5.8	-0.3	.2	-0.1
Construction supplies	-0.6	11.0	-0.4	.1	.2
Materials	2.2	2.5	-0.6	-0.6	.1
Durable goods	2.2	1.4	-1.2	-1.1	.1
Nondurable goods	.4	7.9	.2	-0.7	.2
Energy materials	4.0	-0.1	-0.2	.5	-0.2



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

May 16, 1986

	1984:Q4 to 1985:Q4	1985 Q4	1986				Growth from Q4 1985 to Apr. 1986 P
			Q1	Feb.	Mar.	Apr. P	
----- Percentage change at annual rates -----							
1. M1	11.9	10.7	7.7	7.5	13.9	14.5	10.0
2. M2	8.6	6.0	4.3	3.6	6.8	13.7	6.5
3. M3	7.7	6.4	7.4	6.1	6.8	10.6	7.9
							Levels in billions of dollars Apr. 1986P
<u>Selected components</u>							
4. Currency	7.5	7.4	7.5	7.0	6.9	4.1	174.5
5. Demand deposits	8.6	7.7	3.0	1.3	17.8	10.5	275.6
6. Other checkable deposits	22.3	18.8	15.0	17.3	13.8	30.5	189.9
7. M2 minus M1 <sup>2</sup>	7.6	4.6	3.2	2.4	4.4	13.5	1974.9
8. Overnight RPs and Eurodollars, NSA	18.7	24.2	4.8	-7.1	-19.5	16.2	67.4
9. General purpose and broker/dealer money market mutual fund shares, NSA	9.3	0.9	11.1	22.3	35.1	35.4	191.8
10. Commercial banks	9.1	5.2	7.2	2.8	7.1	6.0	859.3
11. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	19.0	11.1	8.7	1.6	10.4	13.9	471.4
12. Small time deposits	-0.6	-1.6	5.3	4.7	2.8	-3.4	387.9
13. Thrift institutions	5.1	1.4	4.4	6.3	6.8	7.7	872.8
14. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	13.7	7.4	1.3	3.7	6.7	13.6	365.5
15. Small time deposits	-0.4	-2.9	6.6	8.2	6.7	3.8	507.3
16. M3 minus M2 <sup>4</sup>	3.8	8.0	19.8	15.9	6.9	-1.4	666.7
17. Large time deposits	5.7	10.8	15.5	8.8	-2.4	3.7	451.7
18. At commercial banks, net <sup>5</sup>	5.1	14.1	18.5	7.5	-18.5	-1.3	286.7
19. At thrift institutions	6.8	5.2	10.0	11.4	27.8	11.8	165.0
20. Institution-only money market mutual fund shares, NSA	11.1	3.1	26.8	7.1	44.3	66.7	74.1
21. Term RPs, NSA	-4.4	39.2	47.2	31.5	18.8	-30.3	69.6
22. Term Eurodollars, NSA	-4.0	-6.0	1.5	40.7	16.6	-19.4	79.1

-- Average monthly change in billions of dollars --

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	2.3	6.4	7.6	2.9	4.9	-8.9	475.3
24. Large time deposits, gross	1.0	2.3	3.3	2.4	-4.2	-0.9	346.7
25. Nondeposit funds	1.3	4.1	4.3	0.5	9.1	-8.0	128.6
26. Net due to related foreign institutions, NSA	0.3	0.8	2.4	-0.4	1.5	-7.0	-26.5
27. Other <sup>6</sup>	1.0	3.3	1.9	0.9	7.6	-1.0	155.1
28. U.S. government deposits at commercial banks <sup>7</sup>	0.2	0.9	-0.6	2.1	-5.4	1.7	17.4

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. Nontransactions M2 is seasonally adjusted as a whole.

3. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs increased during March and April 1986 at rates of 6.7 percent and 8.6 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during March and April 1986 at rates of 8.7 percent and 24.5 percent, respectively.

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

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

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, loan RPs and other minor items). Data are partially estimated.

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

p--preliminary

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

May 16, 1986

	1985		1986				Levels in
	Q3	Q4	Q1	Feb.	Mar.	Apr. <sup>P</sup>	bil. of dollars April <sup>P</sup>
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	8.6	11.8	9.7	4.1	9.5	1.6	1944.1
2. Securities	12.4	19.6	3.0	4.0	-19.0	-11.7	444.1
3. U.S. government securities	9.0	-3.5	-4.0	28.1	-12.4	-14.3	264.8
4. Other securities	18.8	61.3	13.8	-29.7	-28.6	-8.0	179.3
5. Total loans	7.4	9.4	11.8	4.2	18.4	5.6	1500.0
6. Business loans	2.4	5.5	6.6	2.7	16.5	6.0	504.6
7. Security loans	-18.0	5.2	99.2	-36.2	186.6	-44.7	46.5
8. Real estate loans	11.2	13.0	11.7	12.4	14.2	13.8	440.6
9. Consumer loans	11.1	8.8	11.6	12.0	10.3	6.5	296.4
10. Other loans	12.3	13.5	8.1	-11.3	9.1	-1.7	211.9
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	2.2	5.0	6.9	3.4	16.4	5.5	500.5
12. Loans at foreign branches <sup>2</sup>	-4.1	-2.1	-41.5	-68.8	-53.0	-83.2	16.1
13. Sum of lines 11 & 12	1.9	4.7	5.1	0.7	14.1	2.3	516.6
14. Commercial paper issued by nonfinancial firms <sup>3</sup>	-1.5	55.5	-14.4	-2.7	-27.4	-40.7	82.6
15. Sums of lines 13 & 14	1.6	11.4	2.1	0.4	7.6	-3.6	599.2
16. Bankers acceptances: U.S. trade related <sup>4,5</sup>	-6.7	-31.7	-9.8	-3.7	-18.6	n.a.	31.7 (Mar)
17. Line 15 plus bankers acceptances: U.S. trade related	1.0	9.0	1.6	0.2	6.5	n.a.	632.8 (Mar)
18. Finance company loans to business <sup>4</sup>	3.1	19.2	16.4	16.5	13.9	n.a.	157.0 (Mar)
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	1.5	10.9	4.5	3.4	8.0	n.a.	789.8 (Mar)

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	FOMC Apr 1	May 15	1985 highs	FOMC Apr 1
<b>Short-term rates</b>							
Federal funds 2/	8.46	11.63	8.58	7.36	6.85	-1.73	-0.51
Treasury bills 3/							
3-month	7.08	10.67	8.80	6.33	6.17	-2.63	-0.16
6-month	7.62	10.77	9.13	6.32	6.16	-2.97	-0.16
1-year	7.73	11.13	9.25	6.30	6.25	-3.00	-0.05
Commercial paper							
1-month	8.00	11.42	8.94	7.23	6.75	-2.19	-0.48
3-month	7.97	11.35	9.12	7.04	6.63	-2.49	-0.41
Large negotiable CD's 3/							
1-month	8.08	11.52	8.89	7.12	6.68	-2.21	-0.44
3-month	8.12	11.79	9.29	7.00	6.61	-2.68	-0.39
6-month	8.20	12.30	9.92	6.92	6.62	-3.30	-0.30
Eurodollar deposits 4/							
1-month	8.68	11.89	8.89	7.34	6.86	-2.03	-0.48
3-month	8.71	12.20	9.58	7.23	6.79	-2.79	-0.44
Bank prime rate	10.50	13.00	10.50	9.00	8.50	-2.00	-0.50
Treasury bill futures							
June 1986 contract			10.58	5.94	6.18	-4.40	0.24
Sept 1986 contract			10.74	5.84	6.03	-4.71	0.19
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	9.33	13.49	11.22	7.01	7.37	-3.85	0.36
10-year	10.12	13.99	12.02	7.37	7.79	-4.23	0.42
30-year	10.27	13.94	11.97	7.47	7.50	-4.47	0.03
Municipal revenue 5/ (Bond Buyer index)	9.21	11.44	10.25	7.69	7.91	-2.34	0.22
Corporate—A utility 6/ Recently offered	11.64	15.30	13.23	9.14	9.39	-3.84	0.25
Home mortgage rates 6/							
S&L fixed-rate	12.55	14.68	13.29	10.10	10.00	-3.29	-0.10
S&L ARM, 1-yr.	n.a.	12.31	11.14	8.67	8.59	-2.55	-0.08
<b>Stock prices</b>							
	1983	1984	1985	1986		Percent change from:	
	highs	Lows	March highs	FOMC Apr 1	May 15	1985 high	FOMC Apr 1
Dow-Jones Industrial	1287.20	1086.57	1553.10	1790.11	1774.68	14.27	-0.86
NYSE Composite	99.63	85.13	121.90	135.86	136.29	11.80	0.32
AMEX Composite	249.03	187.16	246.13	267.43	272.07	10.54	1.74
NASDAQ (OTC)	328.91	225.30	325.16	374.15	385.75	18.63	3.10

1/ One-day quotes except as noted.

2/ Averages for two-week reserve maintenance period closest to date shown. Last observation is the maintenance period ending May 21, 1986.

3/ Secondary market.

4/ Averages for statement week closest to date shown.

5/ Thursday quotes.

6/ Friday quotes.

e—estimate