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CLASS III - FOMC

September 19, 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

## SUPPLEMENTAL NOTES

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### THE DOMESTIC NONFINANCIAL ECONOMY

#### Personal income

Total personal income rose at a \$12-3/4 billion annual rate in August, a bit faster than the average advance during the first seven months of the year. According to the Commerce Department, recent estimates of personal income have been influenced by three special factors: a large increase in retroactive social security benefit payments in July, changes in subsidy payments to farmers in July and August, and smaller wage and salary disbursements in June owing to the strike at AT&T. Excluding these special factors, personal income increased \$16 billion in August and \$6.9 billion in July. During August, wages and salaries rose at a \$12-1/4 billion annual rate, fueled by the gains in employment, hours, and wages reported in the establishment survey earlier this month. Elsewhere, farm income rose \$2.7 billion owing to some additional "advance deficiency payments" made to farmers, while transfer payments declined \$4.4 billion reflecting the absence of the retroactive social security payments made in July.

Personal consumption spending surged \$31.3 billion in August, a 13.6 percent annual rate of increase. The advance largely reflected strong outlays for durable goods associated with the elevated pace of new car sales last month, while spending on both nondurables and services was rather sluggish. The increase in consumption outstripped the rise in income, and the personal saving rate dropped nearly 1 percentage point to 3.1 percent.

PERSONAL INCOME AND EXPENDITURES  
(Based on seasonally adjusted data)

	1984	1985	1986		1986		
			Q1	Q2	June	July	Aug.
— Percentage changes at annual rates <sup>1</sup> —							
Total Personal Income							
Nominal	8.4	6.1	6.0	6.0	.2	3.7	4.4
Real <sup>2</sup>	4.7	2.4	4.9	7.3	-5.1	1.6	—
Disposable Personal Income							
Nominal	8.0	5.6	7.6	6.1	-2.2	3.0	3.0
Real	4.2	1.9	6.5	7.1	-7.5	1.9	—
Expenditures							
Nominal	8.7	6.0	4.6	5.2	9.7	5.2	13.6
Real	3.6	3.5	3.6	6.2	4.3	4.1	—
— Changes in billions of dollars <sup>3</sup> —							
Total personal income	20.4	16.8	9.0	12.3	.6	10.7	12.7
Wages and salaries	12.7	10.6	6.9	3.8	4.8	6.6	12.2
Private	10.7	8.1	5.5	2.0	3.0	4.7	10.0
Manufacturing	2.8	1.5	-.3	-.9	-1.9	-.4	3.2
Other income	8.7	7.6	3.8	8.5	-4.8	4.8	1.3
Disposable personal income	16.3	13.5	11.4	8.1	-5.4	7.4	7.5
Expenditures	21.9	9.0	.3	16.0	22.1	12.0	31.3
Durables	2.5	1.9	-6.2	7.4	-4.8	1.6	26.9
Nondurables	4.3	3.6	2.6	.1	9.8	1.3	2.1
Services	7.6	11.0	3.9	8.5	17.2	9.0	2.4
Personal saving rate (percent)	6.3	5.1	5.0	5.1	4.2	4.0	3.1

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

2. Total personal income is deflated by the personal consumption expenditure deflator.

3. Average monthly changes are from the final month of the preceding period to the final month of period indicated; monthly figures are changes from the preceding month.

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

September 19, 1986

	1984:Q4 to		1986				Growth from Q4 1985 to Aug. 1986 <sup>P</sup>
	1985:Q4	Q1	Q2	June	July	Aug <sup>P</sup>	
----- Percentage change at annual rates -----							
1. M1	11.9	7.7	15.8	14.8	16.7	20.8	14.5
2. M2	8.7	4.3	10.5	9.4	12.9	10.8	8.9
3. M3	7.7	7.6	9.0	8.6	13.0	8.6	9.1
Levels in billions of dollars Aug. 1986 <sup>P</sup>							
<u>Selected components</u>							
4. Currency	7.5	7.5	6.2	6.1	5.4	10.1	179.0
5. Demand deposits	8.6	3.0	15.2	14.1	14.3	14.6	291.8
6. Other checkable deposits	22.3	15.0	25.8	24.0	29.5	38.8	210.5
7. M2 minus M1 <sup>2</sup>	7.7	3.3	8.7	7.7	11.6	7.5	2035.7
8. Overnight RPs and Eurodollars, NSA	20.0	5.9	-1.8	-48.6	99.5	38.4	74.1
9. General purpose and broker/dealer money market mutual fund shares, NSA	9.3	10.9	27.1	24.8	13.4	4.8	200.2
10. Commercial banks	9.1	7.2	5.8	7.5	6.1	5.4	876.2
11. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	19.0	8.7	13.2	21.4	15.3	19.3	500.2
12. Small time deposits	-0.6	5.3	-3.1	-9.7	-5.7	-12.3	376.1
13. Thrift institutions	5.1	4.3	7.3	7.2	7.3	3.5	891.3
14. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	13.7	1.3	13.8	24.9	17.7	16.5	390.3
15. Small time deposits	-0.4	6.6	2.6	-5.7	-0.5	-6.2	501.1
minus M2 <sup>4</sup>	3.8	20.7	3.4	5.2	13.6	-0.4	676.1
17. Large time deposits	5.7	15.6	-1.9	-3.2	0.8	4.6	447.1
18. At commercial banks, net <sup>5</sup>	5.1	18.5	-8.8	-4.3	-3.4	6.0	281.1
19. At thrift institutions	6.8	10.0	11.0	-2.2	8.0	2.2	166.0
20. Institution-only money market mutual fund shares, NSA	11.1	26.8	39.2	-17.3	40.0	51.1	80.8
21. Term RPs, NSA	-4.0	46.3	19.3	21.0	-9.5	9.6	75.5
22. Term Eurodollars, NSA	-4.9	8.7	6.0	9.0	-14.9	0	79.5

-- Average monthly change in billions of dollars --

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	2.5	7.7	-5.4	-3.7	1.9	6.0	480.4
24. Large time deposits, gross	1.0	3.4	-2.6	-0.6	-1.4	4.2	342.6
25. Nondeposit funds	1.5	4.3	-2.8	-3.1	3.3	1.8	137.8
26. Net due to related foreign institutions, NSA	0.4	2.2	-1.7	-2.3	-5.8	0.0	-30.2
27. Other <sup>6</sup>	1.1	2.2	-1.2	-0.8	9.1	1.8	168.0
28. U.S. government deposits at commercial banks <sup>7</sup>	0.2	-0.6	0.9	-2.8	-3.8	-1.6	13.1

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 July and August 1986 at rates of 22.9 percent and 30.6 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during July and August 1986 at rates of 22.3 percent and 17.0 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. Items of borrowings from other than commercial banks in the form of federal funds purchased, securities sold to repurchase, and other liabilities for borrowed money (including borrowings from the Federal Reserve Bank and unaffiliated foreign banks, loan RPs and other minor items). Data are partially estimated.

7. Items 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> September 19, 1986

	1985	1986					Levels in
	Q4	Q1	Q2	June	July	Aug. <sup>P</sup>	bil. of dollars August <sup>P</sup>
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	11.5	9.3	3.9	3.8	13.0	13.5	2007.4
2. Securities	19.9	2.0	4.9	6.3	34.3	29.8	483.2
3. U.S. government securities	-3.5	-5.3	7.9	3.1	46.3	22.7	290.8
4. Other securities	62.5	12.8	0.7	11.2	16.3	40.6	192.4
5. Total loans	8.9	11.6	3.6	3.0	6.5	8.6	1524.2
6. Business loans	6.0	5.3	2.1	4.7	0.0	4.0	510.4
7. Security loans	4.0	101.7	-62.0	-100.9	64.9	-16.1	44.2
8. Real estate loans	12.6	13.0	13.4	11.6	13.8	14.2	461.3
9. Consumer loans	8.5	11.0	6.7	5.0	4.3	5.1	306.9
10. Other loans	10.2	7.3	-1.6	-0.6	-3.0	18.1	201.4
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	6.1	5.2	1.0	3.6	0.7	3.8	505.4
2. Loans at foreign branches <sup>2</sup>	-16.5	0.0	-21.5	-26.7	34.1	-19.9	17.8
. Sum of lines 11 & 12	5.2	5.1	0.2	2.5	1.6	3.0	523.2
14. Commercial paper issued by nonfinancial firms <sup>3</sup>	55.5	-14.4	-10.3	13.1	-21.6	60.1	85.9
15. Sums of lines 13 & 14	11.9	2.1	-1.2	4.0	-1.6	10.7	609.1
16. Bankers acceptances: U.S. trade related <sup>4,5</sup>	-30.8	-6.2	16.3	25.8	14.5	n.a.	33.6 (July)
17. Line 15 plus bankers acceptances: U.S. trade related	9.5	1.8	-0.4	5.1	-0.8	n.a.	637.3 (July)
18. Finance company loans to business <sup>4</sup>	19.2	16.4	3.8	-2.3	2.3	n.a.	158.8 (July)
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	11.3	4.5	0.5	3.8	-0.5	n.a.	796.0 (July)

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)

	1984	1985	1986	1986		Change from:	
	Highs	March High	April Lows	FOMC Aug 19	Sept 18	April Lows	FOMC Aug 19
<b>Short-term rates</b>							
Federal funds 2/	11.63	8.58	6.95	6.33	5.83	-1.12	-0.50
Treasury bills 3/							
3-month	10.67	8.80	5.77	5.56	5.23	-0.54	-0.33
6-month	10.77	9.13	5.81	5.57	5.42	-0.39	-0.15
1-year	11.13	9.25	5.79	5.56	5.53	-0.26	-0.03
Commercial paper							
1-month	11.42	8.94	6.42	6.11	5.77	-0.65	-0.34
3-month	11.35	9.12	6.30	5.96	5.72	-0.58	-0.24
Large negotiable CD's 3/							
1-month	11.52	8.89	6.51	6.03	5.76	-0.75	-0.27
3-month	11.79	9.29	6.39	5.93	5.74	-0.65	-0.19
6-month	12.30	9.92	6.35	5.92	5.74	-0.61	-0.18
Eurodollar deposits 4/							
1-month	11.89	8.89	6.59	6.33	6.01	-0.58	-0.32
3-month	12.20	9.58	6.55	6.26	5.96	-0.59	-0.30
Bank prime rate	13.00	10.50	8.50	8.00	7.50	-1.00	-0.50
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	13.49	11.22	6.49	6.38	6.75	0.26	0.37
10-year	13.99	12.02	6.98	7.02	7.62	0.64	0.60
30-year	13.94	11.97	7.14	7.19	7.74	0.60	0.55
Municipal revenue 5/ (Bond Buyer index)	11.44	10.25	7.55	7.43	7.57	0.02	0.14
Corporate—A utility 6/ Recently offered	15.30	13.23	9.15	9.42	9.57	0.42	0.15
Home mortgage rates 6/ S&L fixed-rate	14.68	13.29	9.86	10.23	9.96	0.10	-0.27
S&L ARM, 1-yr.	12.31	11.14	8.41	8.42	8.18	-0.23	-0.24
	1984	1985	1986	1986		Percent change from:	
	Lows	March Lows	Record Highs	FOMC Aug 19	Sept 18	Record Highs	FOMC Aug 19
<b>Stock prices</b>							
Dow-Jones Industrial	1086.57	1247.35	1919.71	1862.91	1774.18	-7.58	-4.76
NYSE Composite	85.13	102.46	145.75	141.91	133.65	-8.30	-5.82
AMEX Composite	187.16	222.28	285.19	270.59	257.51	-9.71	-4.83
NASDAQ (OTC)	225.30	276.18	411.16	378.82	348.60	-15.22	-7.98

1/ One-day quotes except as noted.

2/ Averages for two-week reserve maintenance period closest to date shown. Last observation is the average for the maintenance period ending Sept. 10, 1986. Secondary market.

4/ Averages for statement week closest to date shown.

5/ Thursday quotes.

6/ Friday quotes.

e—estimate