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February 6, 1987

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

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### THE DOMESTIC NONFINANCIAL ECONOMY

#### Labor market

The household and payroll surveys both reported sizable employment gains in January, and the civilian unemployment rate remained at 6.7 percent. The average workweek rose 0.1 hour and, combined with the employment gains, resulted in an increase of 0.7 percent in the index of aggregate weekly hours of production and nonsupervisory workers on private nonagricultural payrolls.

Employment, as measured by the establishment survey, increased nearly 450,000 in January. As has been the case during most of the current cyclical expansion, a large part of payroll growth took place in the service-producing industries. Employment in retail trade, which was unchanged (seasonally adjusted) in December, grew 165,000 last month. Elsewhere in the service-producing sector, employment in the services industries continued to grow, with sizable gains reported for business and health services.

Outside of the service-producing sector, the construction industry accounted for the balance of job growth in January, reflecting favorable weather conditions during the survey reference week. Manufacturing employment was essentially unchanged in January as small gains in lumber, printing, and chemical manufacturing were offset by small losses in many other manufacturing industries.

As measured by the household survey, employment grew 374,000 in January. This strong employment gain was accompanied by a sizable advance in the

labor force, and the civilian unemployment rate remained at 6.7 percent. Adult women accounted for more than half of the increase in the size of the labor force. A substantial labor force increase also occurred among the Hispanic population, where the labor force participation rate has risen almost 2-1/2 percentage points in the past year.

Wage rates, as measured by the hourly earnings index for production and nonsupervisory workers, rose 0.1 percent in January after a similar decrease in December. Increases in the index for transportation and public utilities and the services industries were offset by a sharp decline in earnings in the construction industry. Over the past 12 months, this measure of wage change has risen 2.0 percent for the private nonfarm economy and 1.6 percent in manufacturing.

#### Auto sales

Sales of new cars fell sharply in January after a tax-related surge in December. Total auto sales declined from a 13.2 million unit rate in December to an 8.3 million unit rate in January. Sharp decreases were reported for both domestic and foreign makes. In addition, sales of light-duty trucks, many of which are for personal use, dropped 25 percent in January to a 3 million unit annual rate.

### THE FINANCIAL ECONOMY

#### Consumer credit

Consumer installment credit outstanding was virtually unchanged in December, after a 6.7 percent rise in November. For 1986 as a whole, outstanding installment credit rose 11.2 percent, off from the 18.0 percent advance in 1985 and the smallest yearly gain since the 4 percent increase in 1982.

Revolving credit and "other" lending both declined in December--mainly at banks and finance companies. The falloff may reflect substitution of home equity-type loans for more traditional types of consumer lending, which face curtailment of interest deductibility under the Tax Reform Act. (Home equity and second mortgage loans are classified as real estate loans regardless of purpose or means of access.) Automobile credit rose at a 3.5 percent annual rate in December--a bit more rapidly than in November but still well below the pace a few months earlier. Auto sales were up significantly in December as consumers rushed to take advantage of sales tax deductions. However, the fact that many sales occurred late in the month suggests that reported auto credit at finance companies may be up in January.

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

	1985	1986	1986		1986		1987
			Q3	Q4	Nov.	Dec.	Jan.
--Average monthly changes--							
Nonfarm payroll employment <sup>2</sup>	230	199	239	244	242	225	448
Strike adjusted	229	199	194	242	240	216	457
Manufacturing	-18	-9	-10	26	38	27	3
Durable	-16	-15	-12	5	16	4	-14
Nondurable	-2	6	2	21	22	23	17
Construction	21	18	21	-4	-8	4	142
Trade	65	52	50	43	49	-3	185
Finance and services	122	120	107	116	112	156	139
Total government	38	25	31	50	20	35	-14
Private nonfarm production workers	159	144	173	166	222	163	356
Manufacturing production workers	-18	-4	-6	30	46	31	8
Total employment <sup>3</sup>	162	174 <sup>e</sup>	125	217	240	205	374
Nonagricultural	182	174 <sup>e</sup>	132	210	187	259	390

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.

e--Adjusted by Board staff to eliminate distortions caused by the introduction of revised population estimates.

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

	1985	1986	1986		1986		1987
			Q3	Q4	Nov.	Dec.	Jan.
Civilian, 16 years and older	7.2	7.0	6.9	6.9	6.9	6.7	6.7
Teenagers	18.6	18.3	18.1	17.8	18.2	17.3	17.7
20-24 years old	11.1	10.7	10.7	10.5	10.2	10.7	10.7
Men, 25 years and older	5.3	5.4	5.4	5.4	5.5	5.2	5.4
Women, 25 years and older	5.9	5.5	5.4	5.3	5.5	5.2	5.1
White	6.2	6.0	6.0	6.0	6.0	5.8	5.9
Black	15.1	14.5	14.5	14.1	14.2	13.7	14.3
Fulltime workers	6.8	6.6	6.5	6.5	6.6	6.3	6.4
Memo:							
Total national <sup>1</sup>	7.1	6.9	6.8	6.7	6.8	6.6	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>

	1985	1986	1986		1986		1987
			Q3	Q4	Nov.	Dec.	Jan.
			--Annual rate--		--Monthly rate--		
Total private nonfarm	3.0	2.1	1.2	2.9	.5	-.1	.1
Manufacturing	3.3	1.7	1.2	1.1	.1	.3	-.1
Durable	3.4	1.5	.5	.6	.1	.2	-.1
Nondurable	3.1	2.3	2.5	1.9	.0	.4	-.1
Contract construction	1.4	1.9	.1	6.6	.9	.0	-1.1
Transportation and public utilities	3.0	1.6	.9	1.6	.2	.0	.3
Finance, insurance, and real estate	4.2	4.5	.5	5.8	1.8	-.7	1.3
Total trade	2.0	1.7	2.0	2.8	.5	-.1	-.1
Services	4.1	3.0	1.0	4.3	.8	-.5	.6

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.

Auto and Light-Duty Truck Sales (s.a.a.r.)  
(millions of units)

	-----1986-----				--1987--
	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.<sup>1</sup></u>
Domestic	11.807	6.974	6.879	9.125	5.811
Foreign	<u>3.782</u>	<u>3.276</u>	<u>3.590</u>	<u>4.121</u>	<u>2.464</u>
Total autos	15.589	10.250	10.469	13.246	8.275
Light-duty trucks (domestic)	4.974	3.375	3.133	3.990(r)	2.954

1. The data for the current month are based on preliminary data and include some imported trucks sold by domestic truck dealers. In 1986, these "captive" imports amounted to 83,474 units.

P--preliminary

R--revised

Foreign Car Sales (s.a.a.r.)  
(million of units)

	-----1986-----				--1987--
	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.(r)</u>	<u>Jan.(p)</u>
Japanese cars	2.738	2.252	2.599	3.003	1.484
European and other cars <sup>1</sup>	<u>1.044</u>	<u>1.024</u>	<u>.991</u>	<u>1.118</u>	<u>.980</u>
Total	3.782	3.276	3.590	4.121	2.464

1. Includes Korean cars.

P--preliminary

R--revised

CONSUMER INSTALLMENT CREDIT  
(Seasonally adjusted)

	Percent change (at annual rate)				Net change (billions of dollars)		Memo: Outstandings (billions of dollars)	
	1986		1986		1986		1986	1985
	Q3	Q4	Nov. <sup>F</sup>	Dec. <sup>P</sup>	Nov. <sup>F</sup>	Dec. <sup>P</sup>	Dec. <sup>P</sup>	Dec.
Total <sup>1</sup>	11.8	7.3	6.7	.2	3.28	.11	594.9	535.1
Selected types								
Auto	24.6	9.3	2.7	3.5	.55	.70	241.8	206.5
Revolving	4.1	6.0	15.0	-1.7	1.58	-.18	127.9	118.3
All other	3.1	5.7	6.2	-2.2	1.16	-.42	225.2	210.3
Selected holders <sup>1</sup>								
Commercial banks	5.7	6.8	13.5	-4.8	2.87	-1.03	257.7	240.8
Finance companies	28.5	2.3	-5.3	-6.9	-.64	-.84	145.4	120.1
Credit unions	11.5	11.1	8.8	12.9	.60	.89	84.0	75.1
Savings institutions <sup>2</sup>	6.5	15.1	8.0	15.5	.42	.81	63.6	55.5
Memorandum:								
Total, ex. auto	3.5	5.8	9.4	-2.0	2.74	-.60	353.1	328.6

1. Includes items not shown separately.

2. Savings and loans, mutual savings banks, and federal savings banks.

r--revised. p--preliminary.

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

February 6, 1987

	1985:04	1986				1987	Growth from Q4 1986 to Jan. 1987 <sup>pe</sup>
	to 1986:04	H1	H2	Nov.	Dec.	Jan. <sup>pe</sup>	
----- Percentage change at annual rates -----							
1. M1	15.3	11.9	17.6	21.0	28.4	9	18-3/4
2. M2	9.1	7.5	10.3	7.1	9.7	7	8-1/2
3. M3	8.9	8.4	9.0	6.1	9.2	9	9
Levels in billions of dollars Dec. 1986							
<u>Selected components</u>							
4. Currency	7.4	7.0	7.6	6.6	8.6	17	183.5
5. Demand deposits	11.7	9.2	13.6	21.3	38.2	-17	307.9
6. Other checkable deposits	28.5	20.9	32.7	32.7	33.4	37	232.7
7. M2 minus M1 <sup>2</sup>	7.1	6.1	7.9	2.4	3.2	7	2073.6
8. Overnight RPs and Eurodollars, NSA	13.2	2.1	24.1	-20.2	-1.6	97	75.7
9. General purpose and broker/dealer money market mutual fund shares, NSA	17.2	19.5	13.6	1.2	2.3	8	207.5
10. Commercial banks	6.5	6.5	6.2	5.7	8.2	11	895.5
11. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	15.9	11.1	19.6	18.6	16.4	19	532.7
12. Small time deposits	-4.7	1.1	-10.4	-12.4	-3.6	1	362.8
13. Thrift institutions	5.1	5.9	4.2	3.5	1.9	4	898.2
14. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	13.0	7.6	17.7	17.4	10.1	16	409.3
15. Small time deposits	-0.6	4.7	-5.8	-7.5	-5.1	-6	488.8
M3 minus M2 <sup>4</sup>	8.1	12.0	3.9	2.1	7.2	15	684.6
17. Large time deposits	2.4	6.8	-2.1	-0.3	3.8	16	444.2
18. At commercial banks, net <sup>5</sup>	1.6	4.6	-1.3	9.0	10.2	28	283.4
19. At thrift institutions	3.6	10.6	-3.2	-16.1	-7.4	-6	160.8
20. Institution-only money market mutual fund shares, NSA	31.5	34.3	24.5	-1.4	-4.3	-1	84.1
21. Term RPs, NSA	27.3	34.0	17.6	61.7	-10.3	-24	81.1
22. Term Eurodollars, NSA	4.8	6.7	2.2	25.8	53.5	36	84.3

-- Average monthly change in billions of dollars --

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	1.8	1.1	2.5	3.8	3.1	12	487.3
24. Large time deposits, gross	0.5	0.4	0.7	1.1	2.8	7	344.0
25. Nondeposit funds	1.3	0.7	1.8	2.7	0.3	5	143.3
26. Net due to related foreign institutions, NSA	0.5	0.2	0.8	5.5	2.8	2	-19.7
27. Other <sup>6</sup>	0.7	0.5	1.0	-2.8	-2.5	3	163.0
28. U.S. government deposits at commercial banks <sup>7</sup>	0.5	0.2	0.8	13.3	-3.3	-2	23.2

1. Semi-annual growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda 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 December 1986 and January 1987 at rates of 33.5 percent and 41 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during December 1986 and January 1987 at rates of 22.0 percent and 29 percent, respectively.

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

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

7. 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>

February 6, 1987

	1986					1987	Levels in bil. of dollars January <sup>p</sup>
	02	03	04	Nov.	Dec.	Jan. <sup>p</sup>	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks	3.9	13.5	9.5	8.9	17.4	22.1	2117.0
2. Securities	4.9	31.9	6.0	7.9	7.0	-5.4	500.2
3. U.S. government securities	7.9	28.4	20.4	20.8	16.9	6.2	310.7
4. Other securities	0.7	37.3	-14.5	-11.6	-8.6	-24.2	189.5
5. Total loans	3.6	7.8	10.6	9.2	20.7	30.8	1616.7
6. Business loans	2.0	2.8	19.4	14.5	38.5	38.0	554.0
7. Security loans	-62.7	17.9	-64.0	18.2	-83.8	45.0	38.7
8. Real estate loans	13.3	13.6	17.1	14.8	24.7	35.3	500.7
9. Consumer loans	6.7	5.6	5.6	5.0	7.7	10.3	315.8
10. Other loans	-1.6	9.2	-2.2	-12.4	5.9	30.1	207.5
----- Short- and Intermediate-Term Business Credit -----							
11. Business loans net of bankers acceptances	1.0	2.7	19.9	14.9	39.6	37.9	548.9
Loans at foreign branches <sup>2</sup>	-21.5	9.1	-28.9	0.0	-61.4	-86.2	15.5
13. Sum of lines 11 & 12	0.2	2.9	18.2	14.4	36.3	34.1	564.4
14. Commercial paper issued by nonfinancial firms <sup>3</sup>	-10.3	10.6	-7.0	-4.1	-40.0	-48.6	80.6
15. Sums of lines 13 & 14	-1.3	4.0	14.7	11.7	25.4	23.3	645.8
16. Bankers acceptances: U.S. trade related <sup>4,5</sup>	16.3	3.6	-27.7	-36.1	-37.3	n.a.	31.2 (Dec)
17. Line 15 plus bankers acceptances: U.S. trade related	-0.3	3.9	12.5	9.3	22.3	n.a.	664.0 (Dec)
18. Finance company loans to business <sup>4</sup>	3.8	-2.5	13.7	24.4	16.4	n.a.	162.9 (Dec)
19. Total short- and intermediate- term business credit (sum of lines 17 & 18)	0.5	2.6	12.7	12.2	21.1	n.a.	826.8 (Dec)

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.

III-T-1  
SELECTED FINANCIAL MARKET QUOTATIONS 1/  
(percent)

	1984	1985	1986		1987	Change from:	
	Highs	March highs	June highs	FOMC Dec 16	Feb 5	June highs	FOMC Dec 16
<b>Short-term rates</b>							
Federal funds 2/	11.63	8.58	6.90	6.14	6.22	-0.68	10.09
Treasury bills 3/							
3-month	10.67	8.80	6.52	5.58	5.63	-0.89	0.05
6-month	10.77	9.13	6.57	5.58	5.62	-0.95	0.04
1-year	11.13	9.25	6.62	5.56	5.60	-1.02	0.04
Commercial paper							
1-month	11.42	8.94	6.87	6.36	5.97	-0.90	-0.39
3-month	11.35	9.12	6.81	6.08	5.90	-0.91	-0.18
Large negotiable CD's 3/							
1-month	11.52	8.89	6.88	6.28	5.99	-0.89	-0.29
3-month	11.79	9.29	6.91	6.02	5.97	-0.94	-0.05
6-month	12.30	9.92	6.97	5.96	5.97	-1.00	0.01
Eurodollar deposits 4/							
1-month	11.89	8.89	7.01	6.36	6.11	-0.90	-0.25
3-month	12.20	9.58	7.01	6.16	6.14	-0.87	-0.02
Bank prime rate	13.00	10.50	8.50	7.50	7.50	-1.00	-
<b>Intermediate- and long-term rates</b>							
U.S. Treasury (constant maturity)							
3-year	13.49	11.22	7.86	6.44	6.50	-1.36	0.06
10-year	13.99	12.02	8.39	7.12	7.20	-1.19	0.08
30-year	13.94	11.97	7.93	7.39	7.47	-0.46	0.08
Municipal revenue 5/ (Bond Buyer index)	11.44	10.25	8.57	7.31	6.98	-1.59	-0.33
Corporate—A utility recently offered	15.30	13.23	9.70	9.03	8.85	-0.85	-0.18
Home mortgage rates 6/							
S&L fixed-rate	14.68	13.29	10.76	9.30	9.12	-1.64	-0.18
S&L ARM, 1-yr.	12.31	11.14	8.65	7.63	7.58	-1.07	-0.05
	1984	1985	1986	1986	1987	Percent change from:	
	Low	March low	High	FOMC Dec 16	Feb 5	1986 high	FOMC Dec 16
<b>Stock prices</b>							
Dow-Jones Industrial	1086.57	1247.35	1955.57	1936.16	2201.49	12.58	13.70
NYSE Composite	85.13	102.46	145.75	142.87	160.36	10.02	12.24
AMEX Composite	187.16	222.28	285.19	263.77	314.98	10.45	19.41
NASDAQ (OTC)	225.30	276.18	411.16	353.77	405.70	-1.33	14.68

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 11, 1987.

3/ Secondary market.

4/ Averages for statement week closest to date shown.

5/ Thursday quotes.

6/ Friday quotes.

e—estimate