HUMPHREY-HAWKINS TESTIMONY

July 20-21, 1982

I am pleased to have this opportunity once again to discuss monetary policy with you within the context of recent and prospective economic developments. As usual on these occasions, you have the Board of Governors' "Humphrey-Hawkins" Report before you. This morning I want to enlarge upon some aspects of that Report and amplify as fully as I can my thinking with respect to the period ahead.

In assessing the current economic situation, I believe the comments I made five months ago remain relevant. Without repeating that analysis in detail, I would emphasize that we stand at an important crossroads for the economy and economic policy.

In these past two years we have traveled a considerable way toward reversing the inflationary trend of the previous decade or more. I would recall to you that, by the late 1970s, that trend had shown every sign of feeding upon itself and tending to accelerate to the point where it threatened to undermine the foundations of our economy. Dealing with inflation was accepted as a top national priority, and, as events developed, that task fell almost entirely to monetary policy.

In the best of circumstances, changing entrenched patterns of inflationary behavior and expectations -- in financial markets, in the practices of business and financial institutions, and in labor negotiations -- is a difficult and potentially painful process. Those, consciously or not, who had come to "bet" on rising prices and the ready availability of relatively cheap

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In the best of circumstances, changing entrenched patterns of inflationary behavior and expectations -- in financial markets, in the practices of business and financial institutions, and in labor negotiations -- is a difficult and potentially painful process. Those, consciously or not, who had come to "bet" on rising prices and the ready availability of relatively cheap

credit to mask the risks of rising costs, poor productivity, aggressive lending, or over-extended financial positions have found themselves in a particularly difficult position.

The pressures on financial markets and interest rates have been aggravated by concerns over prospective huge volumes of Treasury financing, and by the need of some businesses to borrow at a time of a severe squeeze on profits. Lags in the adjustment of nominal wages and other costs to the prospects for sharply reduced inflation are perhaps inevitable, but have the effect of prolonging the pressure on profits -- and indirectly on financial markets and employment. Remaining doubts and skepticism that public policy will "carry through" on the effort to restore stability also affect interest rates, perhaps most particularly in the longer-term markets.

In fact, the evidence now seems to me strong that the inflationary tide has turned in a fundamental way. In stating that, I do not rely entirely on the exceptionally favorable consumer and producer price data thus far this year, when the recorded rates of price increase (at annual rates) declined to 3½ and 2½%, respectively. That apparent improvement was magnified by some factors likely to prove temporary, including, of course, the intensity of the recession; those price indices are likely to appear somewhat less favorable in the second half of the year. What seems to me more important for the longer run is that the trend of underlying costs and nominal wages has begun to move lower, and that trend should be sustainable as the

economy recovers upward momentum. While less easy to identify -- labor productivity typically does poorly during periods of business decline -- there are encouraging signs that both management and workers are giving more intense attention to the effort to improve productivity. That effort should "pay off" in a period of business expansion, helping to hold down costs and encouraging a revival of profits, setting the stage for the sustained growth in real income we want.

I am acutely aware that these gains against inflation have been achieved in a context of serious recession. Millions of workers are unemployed, many businesses are hardpressed to maintain profitability, and business bankruptcies are at a postwar high. While it is true that some of the hardship can reasonably be traced to mistakes in management or personal judgment, including presumptions that inflation would continue, large areas of the country and sectors of the economy have been swept up in more generalized difficulty. Our financial system has great strength and resiliency, but particular points of strain have been evident.

Quite obviously, a successful program to deal with inflation, with productivity, and with the other economic and social problems we face cannot be built on a crumbling foundation of continuing recession. As you know, there have been some indications -- most broadly reflected in the rough stability of the real GNP in the second quarter and small increases in the leading indicators -- that the downward adjustments may be drawing

to a close. The tax reduction effective July 1, higher social security payments, rising defense spending and orders, and the reductions in inventory already achieved, all tend to support the generally held view among economists that some recovery is likely in the second half of the year.

I am also conscious of the fact that the leveling off of the GNP has masked continuing weakness in important sectors of the economy. In its early stages, the prospective recovery must be led largely by consumer spending. But to be sustained over time, and to support continuing growth in productivity and living standards, more investment will be necessary. At present, as you know, business investment is moving lower. House building has remained at depressed levels; despite some small gains in starts during the spring, the cyclical strength "normal" in that industry in the early stages of recovery is lacking. Exports have been adversely affected by the relative strength of the dollar in exchange markets.

I must also emphasize that the current problems of the American economy have strong parallels abroad. Governments around the world have faced, in greater or lesser degree, both inflationary and fiscal problems. As they have come to grips with those problems, growth has been slow or non-existent, and the recessionary tendencies in various countries have fed back, one on another.

In sum, we are in a situation that obviously warrants concern, but also has great opportunities. Those opportunities lie in major part in achieving lasting progress -- in pinning

down and extending what has already been achieved -- toward price stability. In doing so, we will be laying the base for sustaining recovery over many years ahead, and for much lower interest rates, even as the economy grows. Conversely, to fail in that task now, when so much headway has been made, could only greatly complicate the problems of the economy over time. I find it difficult to suggest when and how a credible attack could be renewed on inflation should we neglect completing the job now. Certainly the doubts and skepticism about our capacity to deal with inflation -- which now seem to be yielding -- would be amplified, with unfortunate consequences for financial markets and ultimately for the economy.

I am certain that many of the questions, concerns and dangers in your mind lie in the short run -- and that those in good part revolve around the pressures in financial markets. Can we look forward to lower interest rates to support the expansion in investment and housing as the recovery takes hold? Is there, in fact, enough liquidity in the economy to support expansion -- but not so much that inflation is reignited? Will, in fact, the economy follow the recovery path so widely forecast in coming months?

These are the questions that we in the Federal Reserve must deal with in setting monetary policy. As we approach these policy decisions, we are particularly conscious of the fact that monetary policy, however important, is only one instrument of economic policy. Success in reaching our common objective of a strong and prosperous economy depends upon more

than appropriate monetary policies, and I will touch this morning on what seem to me appropriately complementary policies in the public and private sectors.

The Monetary Targets

Five months ago, in presenting our monetary and credit targets for 1982, I noted some unusual factors could be at work tending to increase the desire of individuals and businesses to hold assets in the relatively liquid forms encompassed in the various definitions of money. Partly for that reason -- and recognizing that the conventional base for the M1 target of the fourth quarter of 1981 was relatively low -- I indicated that the Federal Open Market Committee contemplated growth toward the upper ends of the specified ranges. Given the "bulge" early in the year in M1, the Committee also contemplated that that particular measure of money might for some months remain above a "straight line" projection of the targeted range from the fourth quarter of 1981 to the fourth quarter of 1982.

As events developed, M1 and M2 both remained somewhat above straight line paths until very recently. M3 and bank credit have remained generally within the indicated range, although close to the upper ends. (See Table I.) Taking the latest full month of June, M1 grew 5.6% from the base period and M2 9.4%, close to the top of the ranges. To the second quarter as a whole, the growth was higher, at 6.8% and 9.7%, respectively. Looked at on a year-over-year basis, which appropriately tends to average through volatile monthly and quarterly figures, M1 during the first half of 1982 averaged about 4-3/4% above the

first half of 1981 (after accounting for NOW account shifts early last year). On the same basis, M2 and M3 grew by 9.7 and 10.5 percent, respectively, a rate of growth distinctly faster than the nominal GNP over the same interval.

In conducting policy during this period, the Committee was sensitive to indications that the desire of individuals and others for liquidity was unusually high, apparently reflecting concerns and uncertainties about the business and financial situation. One reflection of that may be found in unusually large declines in "velocity" over the period -- that is, the ratio of measures of money to the gross national product. M1 velocity -- particularly for periods as short as three to six months -- is historically volatile. A cyclical tendency to slow (relative to its upward trend) during recessions is common. But an actual decline for two consecutive quarters, as happened late in 1981 and the first quarter of 1982, is rather unusual. The magnitude of the decline during the first quarter was larger than in any quarter of the entire postwar period. Moreover, declines in velocity of this magnitude and duration are often accompanied by (and are related to) reduced short-term interest rates. Those interest rate levels during the first half of 1982 were distinctly lower than during much of 1980 and 1981, but they rose above the levels reached in the closing months of last year.

More direct evidence of the desire for liquidity or precautionary balances affecting M1 can be found in the behavior of NOW accounts. As you know, NOW accounts are a relatively

new instrument, and we have no experience of behavior over the course of a full business cycle. We do know that NOW accounts are essentially confined to individuals, their turnover relative to demand accounts is relatively low, and, from the standpoint of the owner, they have some of the characteristics of savings deposits, including a similarly low interest rate but easy access on demand. We also know the great bulk of the increase in M1 during the early part of the year -- almost 90% of the rise from the fourth quarter of 1981 to the second quarter of 1982 -- was concentrated in NOW accounts, even though only about a fifth of total M1 is held in that form. In contrast to the steep downward trend in low-interest savings accounts in recent years, savings account holdings have stabilized or even increased in 1982, suggesting the importance of a high degree of liquidity to many individuals in allocating their funds. A similar tendency to hold more savings deposits has been observed in earlier recessions.

I would add that the financial and liquidity positions of the household sector of the economy, as measured by conventional liquid asset and debt ratios, has improved during the recession period. Relative to income, debt repayment burdens have declined to the lowest level since 1976. Trends among business firms are clearly mixed. While many individual firms are under strong pressure, some rise in liquid asset holdings for the corporate sector as a whole appears to be developing. The gap between internal cash flow (that is, retained earnings and depreciation allowances) and spending for plant, equipment, and inventory

has also been at an historically low level, suggesting that a portion of recent business credit demands is designed to bolster liquidity. But, for many years, business liquidity ratios have tended to decline, and balance sheet ratios have reflected more dependence on short-term debt. In that perspective, any recent gains in liquidity appear small.

In the light of the evidence of the desire to hold more NOW accounts and other liquid balances for precautionary rather than transaction purposes during the months of recession, strong efforts to reduce further the growth rate of the monetary aggregates appeared inappropriate. Such an effort would have required more pressure on bank reserve positions -- and presumably more pressures on the money markets and interest rates in the short run. At the same time, an unrestrained build-up of money and liquidity clearly would have been inconsistent with the effort to sustain progress against inflation, both because liquidity demands could shift quickly and because our policy intentions could easily have been misconstrued. Periods of velocity decline over a quarter or two are typically followed by periods of relatively rapid increase. Those increases tend to be particularly large during cyclical recoveries. Indeed, velocity appears to have risen slightly during the second quarter and the growth in NOW accounts has slowed.

Judgments on these seemingly technical considerations inevitably take on considerable importance in the target-setting process because the economic and financial consequences (including

the consequences for interest rates) of a particular M1 or M2 increase are dependent on the demand for money. Over longer periods, a certain stability in velocity trends can be observed, but there is a noticeable cyclical pattern. Taking account of those normal historical relationships, the various targets established at the beginning of the year were calculated to be consistent with economic recovery in a context of declining inflation. That remains our judgment today. Inflation has, in fact, receded more rapidly than anticipated at the start of the year potentially leaving more "room" for real growth. On that basis, the targets established early in the year still appeared broadly appropriate, and the Federal Open Market Committee decided at its recent meeting not to change them at this time.

However, the Committee also felt, in the light of developments during the first half, that growth around the top of those ranges would be fully acceptable. Moreover -- and I would emphasize this -- growth somewhat above the targeted ranges would be tolerated for a time in circumstances in which it appeared that precautionary or liquidity motivations, during a period of economic uncertainty and turbulence, were leading to stronger than anticipated demands for money. We will look to a variety of factors in reaching that judgment, including such technical factors as the behavior of different components in the money supply, the growth of credit, the behavior of banking and financial markets, and more broadly, the behavior of velocity and interest rates.

I believe it is timely for me to add that, in these circumstances, the Federal Reserve should not be expected to respond, and does not plan to respond, strongly to various "bulges" -- or for that matter "valleys" -- in monetary growth that seem likely to be temporary. As we have emphasized in the past, the data are subject to a good deal of statistical "noise" in any circumstances, and at times when demands for money and liquidity may be exceptionally volatile, more than usual caution is necessary in responding to "blips."*

We, of course, have a concrete instance at hand of a relatively large (and widely anticipated) jump in M1 in the first week of July -- possibly influenced to some degree by larger social security payments just before a long weekend. Following as it did a succession of money supply declines, that increase brought the most recent level for M1 barely above the June average, and it is not of concern to us.

It is in this context, and in view of recent declines in short-term market interest rates, that the Federal Reserve yesterday reduced the basic discount rate from 12 to 11½ percent.

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*In that connection, a number of observers have noted that the first month of a calendar quarter -- most noticeably in January and April -- sometimes shows an extraordinarily large increase in M1 -- amplified by the common practice of multiplying the actual change by 12 to show an annual rate. Those bulges, more typically than not, are partially "washed out" by slower than normal growth the following month. The standard seasonal adjustment techniques we use to smooth out monthly money supply variations -- indeed, any standard techniques -- may, in fact, be incapable of keeping up with rapidly changing patterns of financial behavior, as they affect seasonal patterns. A note attached to this statement sets forth some work in process developing new seasonal adjustment techniques.

In looking ahead to 1983, the Open Market Committee agreed that a decision at this time would -- even more obviously than usual -- need to be reviewed at the start of the year in the light of all the evidence as to the behavior of velocity or money and liquidity demand during the current year. Apart from the cyclical influences now at work, the possibility will need to be evaluated of a more lasting change in the trend of velocity.

The persistent rise in velocity during the past twenty years has been accompanied by rising inflation and interest rates -- both factors that encourage economization of cash balances. In addition, technological change in banking -- spurred in considerable part by the availability of computers -- has made it technically feasible to do more and more business on a proportionately smaller "cash" base. With incentives strong to minimize holdings of cash balances that bear no or low interest rates, and given the technical feasibility to do so, turnover of demand deposits has reached an annual rate of more than 300, quadruple the rate ten years ago. Technological change is continuing, and changes in regulation and bank practices are likely to permit still more economization of M1-type balances. However, lower rates of interest and inflation should moderate incentives to exploit that technology fully. In those conditions, velocity growth could slow, or conceivably at some point stop.

To conclude that the trend has in fact changed would clearly be premature, but it is a matter we will want to evaluate carefully as time passes. For now, the Committee felt that the

existing targets should be tentatively retained for next year. Since we expect to be around the top end of the ranges this year, those tentative targets would of course be fully consistent with somewhat slower growth in the monetary aggregates in 1983. Such a target would be appropriate on the assumption of a more or less normal cyclical rise in velocity. With inflation declining, the tentative targets would appear consistent with, and should support, continuing recovery at a moderate pace.

The Blend of Monetary and Fiscal Policy

The Congress, in adopting a budget resolution contemplating cuts in expenditures and some new revenues, also called upon the Federal Reserve to "reevaluate its monetary targets in order to assure that they are fully complementary to a new and more restrained fiscal policy." I can report that members of the Committee welcomed the determination of the Congress to achieve greater fiscal restraint, and I want particularly to recognize the leadership of members of the Budget Committees and others in achieving that result. In most difficult circumstances, progress is being made toward reducing the huge potential gap between receipts and expenditures. But I would be less than candid if I did not also report a strong sense that considerably more remains to be done to bring the deficit under control as the economy expands. The fiscal situation as we appraise it, continues to carry the implicit threat of "crowding out" business investment and housing as

the economy grows -- a process that would involve interest rates substantially higher than would otherwise be the case. For the more immediate future, we recognized that the need remains to convert the intentions expressed in the Budget Resolution into concrete legislative action.

In commenting on the budget, I would distinguish sharply between the "cyclical" and "structural" deficit -- that is, the portion of the deficit reflecting an imbalance between receipts and expenditures even in a satisfactorily growing economy with declining inflation. To the extent the deficit turns out to be larger than contemplated entirely because of a shortfall in economic growth, that "add on" would not be a source of so much concern. But the hard fact remains that, if the objectives of the Budget Resolution are fully reached, the deficit would be about as large in fiscal 1983 as this year even as the economy expands at a rate of 4 to 5 percent a year and inflation (and thus inflation generated revenues) remains higher than members of the Open Market Committee now expect.

In considering the question posed by the Budget Resolution, the Open Market Committee felt that full success in the budgetary effort should itself be a factor contributing to lower interest rates and reduced strains in financial markets. It would thus

assist importantly in the common effort to reduce inflationary pressures in the context of a growing economy. By relieving concern about future financing volume and inflationary expectations, I believe as a practical matter a credibly firmer budget posture might permit a degree of greater flexibility in the actual short-term execution of monetary policy without arousing inflationary fears. Specifically, market anxiety that short-run increases in the Ms might presage continuing monetization of the debt could be ameliorated. But any gains in these respects will of course be dependent on firmness in implementing the intentions set forth in the Resolution and on encouraging confidence among borrowers and investors that the effort will be sustained and reinforced in coming years.

Taking account of all these considerations, the Committee did not feel that the budgetary effort, important as it is, would in itself appropriately justify still greater growth in the monetary aggregates over time than I have anticipated. Indeed, excessive monetary growth -- and perceptions thereof -- would undercut any benefits from the budgetary effort with respect to inflationary expectations. We believe fiscal restraint should be viewed more as an important complement to appropriately disciplined monetary policy than as a substitute.

Concluding Comments

In an ideal world, less exclusive reliance on monetary policy to deal with inflation would no doubt have eased the strains and high interest rates that plague the economy and financial markets today. To the extent the fiscal process can now be brought more fully to bear on the problem, the better off we will be -- the more assurance we will have that interest rates will decline and keep declining during the period of recovery, and that we will be able to support the increases in investment and housing essential to healthy, sustained recovery. Efforts in the private sector -- to increase productivity, to reduce costs, and to avoid inflationary and job-threatening wage increases -- are also vital, even though the connection between the actions of individual firms and workers and the performance of the economy may not always be self-evident to the decision makers. We know progress is being made in these areas, and more progress will hasten full and strong expansion.

But we also know that we do not live in an ideal world. There is strong resistance to changing patterns of behavior and expectations ingrained over years of inflation. The slower the progress on the budget, the more industry and labor build in cost increases in anticipation of inflation or Government acts to protect markets or impede competition, the more highly speculative financing is undertaken, the greater the threat that available supplies of money and credit will be exhausted in financing rising prices instead of new jobs and growth. Those in vulnerable competitive positions are most likely to feel the

impact first and hardest, but unfortunately the difficulties spread over the economic landscape.

The hard fact remains that we cannot escape those dilemmas by a decision to give up the fight on inflation -- by declaring the battle won before it is. Such an approach would be transparently clear -- not just to you and me -- but to the investors, the businessmen and the workers who would, once again, find their suspicions confirmed that they had better prepare to live with inflation, and try to keep ahead of it. The reactions in financial markets and other sectors of the economy would, in the end, aggravate our problems, not eliminate them. It would strike me as the cruelest blow of all to the millions who have felt the pain of recession directly to suggest, in effect, it was all in vain.

I recognize months of recession and high interest rates have contributed to a sense of uncertainty. Businesses have postponed investment plans. Financial pressures have exposed lax practices and stretched balance sheet positions in some institutions -- financial as well as non-financial. The earnings position of the thrift industry remains poor.

But none of those problems can be dealt with successfully by re-inflation or by a lack of individual discipline. It is precisely that environment that contributed so much to the current difficulties.

In contrast, we are now seeing new attitudes of cost containment and productivity growth -- and ultimately our industry will be in a more robust competitive position. Millions are

benefitting from less rapid price increases -- or actually lower prices -- at their shopping centers and elsewhere. Consumer spending appears to be moving ahead, and inventory reductions help set the stage for production increases.

Those are developments that should help recovery get firmly underway. The process of disinflation has enough momentum to be sustained during the early stages of recovery -- and that success can breed further success as concerns about inflation recede. As recovery starts, the cash flow of business should improve. And, more confidence should encourage greater willingness among investors to purchase longer debt maturities. Those factors should, in turn, work toward reducing interest rates, and sustaining them at lower levels, encouraging in turn the revival of investment and housing we want.

I have indicated the Federal Reserve is sensitive to the special liquidity pressures that could develop during the current period of uncertainty. Moreover, the basic solidity of our financial system is backstopped by a strong structure of governmental institutions precisely designed to cope with the secondary effects of isolated failures. The recent problems related largely to the speculative activities of a few highly leveraged firms can and will be contained, and over time, an appropriate sense of prudence in taking risks will serve us well.

We have been through -- we are in -- a trying period. But too much has been accomplished not to move ahead and complete the job of laying the groundwork for a much stronger economy. As we look forward, not just to the next few months but to long

years, the rewards will be great: in renewed stability, in growth, and in higher employment and standards of living. That vision will not be accomplished by monetary policy alone. But we mean to do our part.

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Table I

Targeted and Actual Growth of
Money and Bank Credit

(Percent changes, at seasonally adjusted annual rates)

		Actual Growth		
	FOMC Objective 1981Q4 to 1982Q4	1981Q4 to June '82	1981Q4 to 1982Q2	1981H1 to 1982H1
M1	2-1/2 to 5-1/2	5.6	6.8	4.7**
M2	6 to 9	9.4	9.7	9.7
M3	6-1/2 to 9-1/2	9.7	9.8	10.5
Bank Credit*	6 to 9	8.0	8.3	8.4

* The base for the bank credit target is the average level of December 1981 and January 1982, rather than the average for 1981Q4. This base was adopted because of the impact on the series of shifts of assets to the new international banking facilities (IBFs); the 1981H1-to-1982H1 figure has been adjusted for the impact of the initial shifting of assets to IBFs.

** Adjusted for impact of shifts to new NOW accounts in 1981.

Appendix

Alternative Seasonal Adjustment Procedure

For some time the Federal Reserve has been investigating ways to improve its procedures for seasonal adjustment, particularly as they apply to the monetary aggregates. In June of last year, a group of prominent outside experts, asked by the Board to examine seasonal adjustment techniques, submitted their recommendations.[1/] The committee suggested, among other things, that the Board's staff develop seasonal factor estimates from a model-based procedure as an alternative to the widely used X-11 technique that provides the basis for the current seasonal adjustment procedure,[2/] and release the results.

The Board staff has been developing a procedure using statistical models tailored to each individual series.[3/] The table on the last page compares monthly and quarterly average growth rates for the current M1 series with those of an alternative series from the model-based approach.

Differences in seasonal adjustment techniques do not change the trend in monetary growth, but, as may be seen in the table, they do alter month-to-month growth rates owing to differing estimates of the

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1/ See Committee of Experts on Seasonal Adjustment Techniques, Seasonal Adjustment of the Monetary Aggregates (Board of Governors of the Federal Reserve System, October 1981).

2/ The current seasonal adjustment technique has most recently been summarized in the description to the mimeograph release of historical money stock data dated March 1982. Detailed descriptions of the X-11 program and variants can be obtained from technical paper no. 15 of the U. S. Department of Commerce (rev. February 1967) and from the report to the Board cited in footnote 1.

3/ The model-based seasonal adjustment procedures currently under review by the Board staff use methods based on the well-developed theory of statistical regression and time series modeling. These approaches allow development of seasonal factors that are more sensitive than the current factors to unique characteristics of each series, including, for example, fixed and evolving seasonal patterns, trading day effects, within-month seasonal variations, holiday effects, outlier adjustments, special events adjustments (such as the 1980 credit controls experience), and serially correlated noise components.

Growth Rates of M1 Using Current[1] and Alternative[2] Seasonal Adjustment Procedures
(Monthly Average - Percent Annual Rates)

	1981			1982	
	Current	Alternative		Current	Alternative
Jan.	9.8	1.4	Jan.	21.0	11.4
Feb.	4.3	7.5	Feb.	-3.5	1.3
Mar.	14.3	16.0	Mar.	2.7	6.4
Apr.	25.2	22.6	Apr.	11.0	4.5
May	-11.4	-10.3	May	-2.4	0.5
June	-2.2	-0.6	June	-1.6	1.3
July	2.8	2.2			
Aug.	4.8	5.3			
Sept.	0.3	3.1			
Oct.	4.7	0.0			
Nov.	9.7	11.1			
Dec.	12.4	15.4			

(Quarterly Average - Percent Annual Rates)

QI	4.6	3.5	QI	10.4	9.5
QII	9.2	9.6	QII	3.1	3.4
QIII	0.3	0.9			
QIV	5.7	5.5			

1/ Current monthly seasonal factors are derived using an X-11/ARIMA-based procedure applied to monthly data.

2/ Alternative monthly seasonal factors are derived using a model-based procedure applied to weekly data.

SELECTED FINANCIAL MARKET QUOTATIONS

	1982			
	Feb. Highs	May Lows	June Highs	July 19
Short-term rates				
Federal funds	16.36	13.27	14.98	12.10p[1]
1-month Commercial paper	15.73	13.10	14.89	12.34
3-month Treasury bills	14.57	11.50	13.19	11.06
3-month CDs	16.14	13.25	15.58	13.28
Bank Prime Rate	17.00	16.50	16.50	16.50
Intermediate- and long-term rates				
U.S. Treasury (constant maturity)				
3-year	15.16	13.60	14.98	13.73p
10-year	14.95	13.46	14.76	13.69p
30-year	14.80	13.08	14.26	13.34p
Corporate Aaa utility (recently offered)	16.34	15.17	16.19	15.87p[2]
Municipal Bond Buyer (general obligation)	13.13	11.82	12.63	12.36[3]
Primary Conventional Mortgages	17.66	16.63	16.87	16.88[2]
Stock Prices				
Dow Jones Industrial	852.55	819.54	816.88	826.10
NYSE Composite	68.17	64.54	68.28	63.54

1. Average for first 5 days of statement week ending July 21 is 12.62.
2. Rate for preceding Friday.
3. Rate for preceding Thursday.

SELECTED FINANCIAL MARKET QUOTATIONS

	1982			
	Feb. Highs	May Lows	June Highs	July 14
Short-term rates				
Federal funds	16.36	13.27	14.98	12.88[1]
1-month Commercial paper	15.73	13.10	14.89	13.36
3-month Treasury bills	14.57	11.50	13.19	12.00
3-month CDs	16.14	13.25	15.58	14.09
Bank Prime Rate	17.00	16.50	16.50	16.50
Intermediate- and long-term rates				
U.S. Treasury (constant maturity)				
3-year	15.16	13.60	14.98	14.26
10-year	14.95	13.46	14.76	14.10
30-year	14.80	13.08	14.26	13.68
Corporate Aaa utility (recently offered)	16.34	15.17	16.19	15.88p[2]
Municipal Bond Buyer (general obligation)	13.13	11.82	12.63	12.47[3]
Primary Conventional Mortgages	17.66	16.63	16.87	16.93[2]
Stock Prices				
Dow Jones Industrial	852.55	819.54	816.88	828.39
NYSE Composite	68.17	64.54	68.28	63.36

1. Average for statement week ending July 14 is 13.18.
2. Rate for preceding Friday.
3. Rate for preceding Thursday.

Table 1

Selected Interest Rates

Percent

July 19, 1982

Period	Short-Term								Long-Term							
	federal funds	Treasury bills: secondary market 3-month	Treasury bills: secondary market 1-year	Treasury bills: auction 6-month	CDs secondary market 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. government constant maturity yields: 3-year	U.S. government constant maturity yields: 10-year	U.S. government constant maturity yields: 30-year	corporate Aaa utility recently offered	muni-cipal Bond Buyer	home mortages: primary conv.	home mortages: secondary market FNMA auction	home mortages: secondary market GNMA security
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1981--High	20.06	16.72	15.05	15.85	18.70	18.33	17.32	20.64	16.54	15.65	15.03	17.72	13.30	18.63	19.23	17.46
Low	12.04	10.20	10.64	10.70	11.51	11.39	11.84	15.75	12.55	12.27	11.81	13.98	9.49	14.80	14.84	13.18
1982--High	15.61	14.41	13.51	14.36	15.84	15.56	13.89	16.86	15.01	14.81	14.63	16.34	13.44	17.66	18.04	16.56
Low	12.42	11.46	11.66	11.59	12.94	12.40	11.77	15.75	13.70	13.51	13.13	15.11	11.82	16.43	16.27	15.17
1981--June	19.10	14.73	13.22	13.95	16.90	17.34	16.92	20.03	14.29	13.47	12.96	14.81	10.67	16.70	16.17	15.02
July	19.04	14.95	13.91	14.40	17.76	17.70	17.04	20.39	15.15	14.28	13.59	15.73	11.14	16.83	16.65	15.76
Aug.	17.82	15.51	14.70	15.55	17.96	17.58	17.17	20.50	16.00	14.94	14.17	16.82	12.26	17.29	17.63	16.67
Sept.	15.87	14.70	14.53	15.06	16.84	15.95	16.55	20.08	16.22	15.32	14.67	17.33	12.92	18.16	18.99	17.06
Oct.	15.08	13.54	13.62	14.01	15.39	14.80	15.32	18.45	15.50	15.15	14.68	17.24	12.83	18.45	18.13	16.61
Nov.	13.31	10.86	11.20	11.53	12.48	12.35	14.33	16.84	13.11	13.39	13.35	15.49	11.89	17.83	16.64	15.10
Dec.	12.37	10.85	11.57	11.47	12.49	12.16	12.09	15.75	13.66	13.72	13.45	15.18	12.90	16.92	16.92	15.51
1982--Jan.	13.22	12.28	12.77	12.93	13.51	12.90	12.01	15.75	14.64	14.59	14.22	15.88	13.28	17.40	17.80	16.19
Feb.	14.78	13.48	13.11	13.71	15.00	14.62	13.11	16.56	14.73	14.43	14.22	15.97	12.97	17.60	18.00	16.21
Mar.	14.68	12.68	12.47	12.62	14.21	13.99	13.49	16.50	14.13	13.86	13.53	15.19	12.82	17.16	17.29	15.54
Apr.	14.94	12.70	12.50	12.86	14.44	14.38	13.74	16.50	14.18	13.87	13.37	15.44	12.59	16.89	--	15.40
May	14.45	12.09	11.98	12.22	13.80	13.79	13.49	16.50	13.77	13.62	13.24	15.24	11.95	16.68	16.27	15.30
June	14.15	12.47	12.57	12.31	14.46	13.95	n.a.	16.50	14.48	14.30	13.92	15.82	12.45	16.70	17.22	15.84
1982--May 5	15.53	12.57	12.39	12.78	14.31	14.25	13.59	16.50	14.06	13.87	13.39	15.29	12.04	16.78	--	15.59
12	14.97	12.32	12.05	12.24	13.82	14.01	13.75	16.50	13.70	13.51	13.13	15.31	11.82	16.63	16.27	15.17
19	14.67	12.27	12.07	12.19	13.92	14.00	13.65	16.50	13.78	13.58	13.25	15.17	11.96	16.67	--	15.26
26	13.70	11.53	11.66	11.68	13.49	13.29	13.29	16.50	13.66	13.59	13.20	15.20	11.99	16.63	--	15.18
June 2	13.43	11.79	11.86	11.59	13.52	13.25	12.94	16.50	13.86	13.81	13.50	15.39	12.13	16.65	--	15.57
9	13.60	12.13	12.17	12.12	13.81	13.42	13.02	16.50	14.03	13.96	13.70	15.59	12.40	16.70	--	15.58
16	14.24	12.20	12.39	12.50	14.10	13.75	13.05	16.50	14.29	14.13	13.80	16.11	12.63	16.71	--	15.85
23	14.17	12.70	12.94	13.03	15.00	14.29	13.01	16.50	14.89	14.63	14.18	16.19	12.62	16.73	17.22	16.14
30	14.81	13.01	12.98	13.42	15.25	14.61	13.17	16.50	14.91	14.65	14.13	16.03	12.58	16.87	--	16.05
July 7	14.47	12.59	12.78	12.98	15.13	14.57	13.14	16.50	14.74	14.47	13.96	15.80	12.47	16.93	--	15.95
14	13.18	11.88	12.20	11.97	14.13	13.54	13.28	16.50	14.17	14.04	13.60	15.87p	12.36	16.88	--	15.51
21																
28																
Daily--July 9	13.05	11.77	12.12	--	14.06	13.59	--	16.50	14.12	14.03	13.57	--	--	--	--	--
15	13.07	11.64	12.09	--	14.17	13.33	--	16.50	14.14	13.96	13.57	--	--	--	--	--
16	12.64	11.21	11.64	--	13.97	13.16	--	16.50	13.82	13.70	13.35	--	--	--	--	--
19	12.10 p	11.06	11.56	--	13.78	12.34	--	16.50	13.73 p	13.69 p	13.34 p	--	--	--	--	--

NOTE: Weekly data for columns 1, 2, 3, and 5 through 11 are statement week averages. Weekly data in column 4 are average rates set in the auction of 6-month bills that will be issued on the Thursday following the end of the statement week. Data in column 7 are taken from Donoghues Money Fund Report. Columns 12 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 14 is an average of contract interest rates on commitments for conventional first mortgages with 80 percent loan-to-value ratios made by a sample of insured savings and loan associations on the Friday following the end of the statement week. The FNMA auction yield is the average yield in a bi-weekly auction for short-term forward commitments for government underwritten mortgages; figures exclude graduated payment mortgages. GNMA yields are average net yields to investors on mortgage-backed securities for immediate delivery, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the coupon rate 50 basis points below the current FHA/VA ceiling.

FR 1367 (1/82)

Selected Interest Rates

Percent

July 15, 1982

Period	Short-Term								Long-Term							
	federal funds	Treasury bills: secondary market 3-month	Treasury bills: secondary market 1-year	Treasury bills: auction 6-month	CDs secondary market 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. government constant maturity yields: 3-year	U.S. government constant maturity yields: 10-year	U.S. government constant maturity yields: 30-year	corporate Aaa utility recently offered	muni-cipal Bond Buyer	home mortages: primary conv.	home mortages: secondary market FNMA auction	home mortages: secondary market GNMA security
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1981--High	20.06	16.72	15.05	15.85	18.70	18.33	17.32	20.64	16.54	15.65	15.03	17.72	13.30	18.63	19.23	17.46
Low	12.04	10.20	10.64	10.70	11.51	11.39	11.84	15.75	12.55	12.27	11.81	13.98	9.49	14.80	14.84	13.18
1982--High	15.61	14.41	13.51	14.36	15.84	15.56	13.89	16.86	15.01	14.81	14.63	16.34	13.44	17.66	18.04	16.56
Low	12.42	11.46	11.66	11.59	12.94	12.40	11.77	15.75	13.70	13.51	13.13	15.11	11.82	16.63	16.27	15.17
1981--June	19.10	14.73	13.22	13.95	16.90	17.34	16.92	20.03	14.29	13.47	12.96	14.81	10.67	16.70	16.17	15.02
July	19.04	14.95	13.91	14.40	17.76	17.70	17.04	20.39	15.15	14.28	13.59	15.73	11.14	16.83	16.65	15.76
Aug.	17.82	15.51	14.70	15.55	17.96	17.58	17.17	20.50	16.00	14.94	14.17	16.82	12.26	17.29	17.63	16.67
Sept.	15.87	14.70	14.53	15.06	16.84	15.95	16.55	20.08	16.22	15.32	14.67	17.33	12.92	18.16	18.99	17.06
Oct.	15.08	13.54	13.62	14.01	15.39	14.80	15.32	18.45	15.50	15.15	14.68	17.24	12.83	18.45	18.13	16.61
Nov.	13.31	10.86	11.20	11.53	12.48	12.35	14.33	16.84	13.11	13.39	13.35	15.49	11.89	17.83	16.64	15.10
Dec.	12.37	10.85	11.57	11.47	12.49	12.16	12.09	15.75	13.66	13.72	13.45	15.18	12.90	16.92	16.92	15.51
1982--Jan.	13.22	12.28	12.77	12.93	13.51	12.90	12.01	15.75	14.64	14.59	14.22	15.88	13.28	17.40	17.80	16.19
Feb.	14.78	13.48	13.11	13.71	15.00	14.62	13.11	16.56	14.73	14.43	14.22	15.97	12.97	17.60	18.00	16.21
Mar.	14.68	12.68	12.47	12.62	14.21	13.99	13.49	16.50	14.13	13.86	13.53	15.19	12.82	17.16	17.29	15.54
Apr.	14.94	12.70	12.50	12.86	14.44	14.38	13.74	16.50	14.18	13.87	13.37	15.44	12.59	16.89	--	15.40
May	14.45	12.09	11.98	12.22	13.80	13.79	13.49	16.50	13.77	13.62	13.24	15.24	11.95	16.68	16.27	15.30
June	14.15	12.47	12.57	12.31	14.46	13.95	n.a.	16.50	14.48	14.30	13.92	15.82	12.45	16.70	17.22	15.84
1982--May 5	15.53	12.57	12.39	12.78	14.31	14.25	13.59	16.50	14.06	13.87	13.39	15.29	12.04	16.78	--	15.59
12	14.97	12.32	12.05	12.24	13.82	14.01	13.75	16.50	13.70	13.51	13.13	15.31	11.82	16.63	16.27	15.17
19	14.67	12.27	12.07	12.19	13.92	14.00	13.65	16.50	13.78	13.58	13.25	15.17	11.96	16.67	--	15.26
26	13.70	11.53	11.66	11.68	13.49	13.29	13.29	16.50	13.66	13.59	13.20	15.20	11.99	16.63	--	15.18
June 2	13.43	11.79	11.86	11.59	13.52	13.25	12.94	16.50	13.86	13.81	13.50	15.39	12.13	16.65	--	15.57
9	13.60	12.13	12.17	12.12	13.81	13.42	13.02	16.50	14.03	13.96	13.70	15.59	12.40	16.70	--	15.58
16	14.24	12.20	12.39	12.50	14.10	13.75	13.05	16.50	14.29	14.13	13.80	16.11	12.63	16.71	--	15.85
23	14.17	12.70	12.94	13.03	15.00	14.29	13.01	16.50	14.89	14.63	14.18	16.19	12.62	16.73	17.22	16.14
30	14.81	13.01	12.98	13.42	15.25	14.61	13.17	16.50	14.91	14.65	14.13	16.03	12.58	16.87	--	16.05
July 7	14.47	12.59	12.78	12.98	15.13	14.57	13.14	16.50	14.74	14.47	13.96	15.88p	12.47	16.93	--	15.95
14	13.18	11.88	12.20	11.97	14.13	13.54	13.28	16.50	14.17	14.04	13.60	n.a.	12.36	n.a.	--	15.51
21																
28																
Daily--July 2	14.61	12.59	12.81	--	15.16	14.67	--	16.50	14.77	14.50	14.03	--	--	--	--	--
8	13.86	11.95	12.28	--	14.93	14.29	--	16.50	14.30	14.19	13.70	--	--	--	--	--
9	13.05	11.77	12.12	--	14.06	13.59	--	16.50	14.12	14.03	13.57	--	--	--	--	--
15	13.05p	11.64	12.09	--	14.17	13.33	--	16.50	14.09p	13.97p	13.58p	--	--	--	--	--

NOTE: Weekly data for columns 1, 2, 3, and 5 through 11 are statement week averages. Weekly data in column 4 are average rates set in the auction of 6-month bills that will be issued on the Thursday following the end of the statement week. Data in column 7 are taken from Donoghues Money Fund Report. Columns 12 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 14 is an average of contract interest rates on commitments for conventional first mortgages with 80 percent loan-to-value ratios made by a sample of insured savings and loan associations on the Friday following the end of the statement week. The FNMA auction yield is the average yield in a bi-weekly auction for short-term forward commitments for government underwritten mortgages; figures exclude graduated payment mortgages. GNMA yields are average net yields to investors on mortgage-backed securities for immediate delivery, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the coupon rate 50 basis points below the current FHA/VA ceiling.

FR 1367 (1/82)

Hysteresis

How much put in

costs inevitable?

1. pumping out money - interest rates go up
2. Easing monetary policy - M. down?
3. Better measure than M.
Not one measure
4. Why interest rates remain high
Outlook
Monetary policy
Expectations
Fiscal

For release on delivery
9:30 AM, E.D.T.
July 20, 1982

Statement by

Paul A. Volcker

Chairman, Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing, and Urban Affairs

United States Senate

July 20, 1982

distribution over time of the seasonal component in money behavior. Short-run money growth is variable under both the alternative and current techniques of seasonal adjustment, illustrating the inherently large "noise" component of the series. However, the redistribution of the seasonal component under the alternative technique does on average tend to moderate month-to-month changes somewhat.

The Board will continue to publish seasonally adjusted estimates for M1 on both current and alternative bases at least until the annual review of seasonal factors in 1983. A detailed description of the alternative method will be available shortly.

BRIEFING NOTES

Uninsured Deposits

Amount uninsured	$251 million
Number uninsured	1082
Number of banks	20 (approximately)
Number of S&Ls	28 (approximately)
Number of credit unions	113 ($93 million)

Discount Window

Receiver's certificates issued		172
Discount window loans		1 ($670,000)
Applications made for discount window		2 (3)
Discount rate		
Basic rate	1st 60 days	
1% increase	next 90 days	
1% increase	after 150 days	

(1) Anheuser Busch
St Louis

uninsured 1.6
Reserves 2.9
assets 72.5
net inc 0.8

Polaroid $1.9M
receivers certificates

(2)

$ 60.6 assets
.3 net inc

Dozen inquiries

Pricing of Federal Reserve Services

1. The Federal Reserve implemented pricing in January, 1981. Since that time, two issues have proven to be very controversial:

-- Basing ACH fees on mature rather than current volume costs; and

-- Relying on operational improvements (which take time) to reduce float rather than pricing it immediately.

As a result of this controversy, the Board and Reserve Banks have made the following decisions:

a. ACH fees will, in 1985, fully recover all costs even if a mature volume level is not attained. This cost recovery will be phased-in: 40% in 1982, 60% in 1983, 80% in 1984, and 100% in 1985 for full cost recovery.

b. Float reduction efforts scheduled or currently underway should reduce float to $1 billion or less by the end of 1982. (Currently, float averages $2 billion per day.) Any remaining float will likely be explicitly priced sometime in 1983.

2. Two recurring areas of GAO and industry concern related to pricing are:

-- Cost revenue matching; and

-- Electronic check collection (ECC).

If the objectives established in the 1982 Reserve Bank business plans are realized and the programs discussed in them are successful, Reserve Banks as a group will be covering all costs and a part of the PSAF by the fourth quarter, 1982. The gap between revenue and costs (including the PSAF) was around 20 percent in April.

Electronic Check Collection, in its current mandatory version, is not viable due to industry opposition, legal problems and a low benefit cost ratio. A voluntary version of ECC is currently under study.

3. New areas of controversy will arise with the planned restructuring of the Interdistrict Transportation System (ITS) for check collection. Two controversial components of this plan are:

-- Noon presentment (where presentment of checks for collection will change from 9:00 to 11:00 A.M. currently to noon); and the

-- Check relay concept, where checks deposited at a local Reserve Bank prior to its deposit deadline are also considered to have been deposited prior to the deposit deadline of the collecting (and distant) Reserve Bank.

Correspondent banks are likely to argue that the System is using its regulatory powers to present checks later as a way of making its check service more attractive to depositors (by offering a later deposit deadline).

Private air courier firms view the System's check relay concept as a competitive threat since check volume may shift from their transportation network to ITS. One large air courier has threatened to take its case to Congress.

Historical Data on Key Federal Reserve System Factors

1974 - 1981

(dollars in millions)

	Total[1] Expenses (CY)	Average[1] Number of Personnel (CY)	Volume: Checks - Processed	Volume: Currency & Sorting & Counting	Volume: Coin Sorting & Counting	Volume: Transfer of Funds	Unit Cost: Cost Per Thousand Checks[2]	Total[3] Expenses Adjusted for Inflation	Average[4] Employee Salary	Comparison: Fed. Govt Outlays (CY)	Comparison: Federal Government Employment (CY)
1974	$ 549.2	26,567	10,822,312	6,757,716	13,659,762	14,509,574	$10.73	$477,870	$ 9,782	$267,912	$2,680,833
1975	599.3	26,341	11,411,337	6,551,093	13,611,463	17,486,436	$10.57	$477,265	$10,581	$324,245	$2,736,250
1976	658.4	25,186	12,291,386	7,015,040	12,688,840	20,767,969	$10.14	$498,402	$11,518	$364,473	$2,745,417
1977	681.9	24,221	13,199,676	8,172,097	13,947,759	24,246,957	$10.19	$487,649	$12,260	$400,506	$2,725,750
1978	714.7	23,390	14,157,153	8,469,772	16,475,922	28,872,694	$ 9.58	$476,303	$13,195	$448,368	$2,745,000
1979	762.3	22,943	15,061,106	8,864,726	18,172,482	35,102,318	$ 9.48	$468,326	$14,124	$490,997	$2,766,250
1980	865.9	23,431	15,702,445	9,513,931	17,702,899	43,256,221	$10.20	$488,233	$15,330	$576,675	$2,861,000
1981	969.1	23,690	14,804,300	10,279,810	16,959,000	50,472,626	$11.44	$500,312	$17,070	$657,204	$2,783,750
AAGR -											
	8.5%	-1.6%	4.6%	6.2%	3.1%	19.5%		0.7%	8.3%	13.7%	0.5%

1/ Adjusted for comparability over time

2/ Functional Cost through 1976 PACS Cost from 1977-1981

3/ Calculated using GNP deflator

4/ Excludes officers and outside agency help

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
TREND IN EXPENSES AND EMPLOYMENT

	1974	1975	1976	1977	1978	1979	1980	1981	% Change 1980-81	Average Annual Increase 1972-81	% Change 1974-81
Total Expenses (less COLA)	30,030,463	33,875,243	38,204,988	41,600,939	44,873,896	48,047,691	53,236,013	58,560,740	10.0	10.0	.95
Salaries	21,552,323	24,017,515	26,514,723	29,021,842	31,212,936	33,572,061	37,069,785	41,014,846	10.6	9.6	90.0
Retirement (less COLA)	1,488,953	2,029,873	3,325,133	2,982,397	3,556,458	4,078,087	4,506,812	4,400,046	(2.4)	16.7	195.5
Insurance	336,917	477,213	583,981	638,923	686,685	689,919	778,967	949,823	21.9	16.0	181.9
Total Personal Services	23,378,193	26,524,601	30,333,837	32,643,162	35,456,079	38,340,067	42,355,564	46,364,715	9.5	10.3	98.3
Number of Employees	1,361	1,443	1,465	1,473	1,469	1,447	1,516	1,491	(1.6)	1.3	
Retiree COLA	-0-	-0-	-0-	1,762,142	2,070,000	3,270,000	4,550,000	878,000	(80.7)		
Total Operating Expenses	30,030463	33,875,243	38,204,988	43,350,081	46,943,896	51,270,226	57,786,013	59,438,740	2.9	10.2	97.9

Federal Reserve System

Key Indicators

1974 - 1981

	Average Annual Growth Rate Percent Change
Total Expenses	8.5%
Employment	-1.6%
Checks - Processed	4.6%
Cost Per Thousand Checks	0.9%
Average Employee Salary	8.3%
Total Expenses Adjusted for Inflation (GNP Deflator)	0.7%
Federal Government Outlays	13.7%

Interest rates in February & now

	House Feb 10	Senate Feb 11	Feb high	Feb average	Late July
Fed funds	15.44	15.87	15.87	14.78	12
3 mo bills	14.15	14.19	14.87	13.48	10.90
3 mon CDs	15.53	15.44	16.14	15.00	13.30
Prime	16.5	16.5	17	16.56	16/16½
30 yr bond	14.64	14.54	14.80	14.22	13.3

qtr	V (3 qtr avg)	rate
67.3	-.9	4.30 - 5.21 = -.91
70.4	-.1	5.35 - 7.21 = -1.86
82.1	-.2	12.81 - 14.91 = -2.10
82.2	-2.8	12.25 - 15.06 = -2.81

qtr	V (4 qtr)	rate
67.4	-0.1	4.75 - 5.21 = -.46
82.1	-1.3	12.81 - 14.39 = -.68

$r_{Qi} - r_{Qi-2}$

Qtr.	U*	rate (90-day Treasury bills)
64.4	-1.2	3.68 - 3.48 = +.20
67.2	-1.3	3.66 - 5.21 = -1.55
67.3	-0.9	4.30 - 4.51 = -.21
68.4	-0.6	5.59 - 5.52 = +.07
70.4	-1.1	5.35 - 6.68 = -1.33
79.3	-.9	9.67 - 9.38 = +.29
82.1	-5.7	12.81 - 15.06 = -2.25
82.2	-3.6	12.25 - 11.75 = +.50

* Two quarter moving average

Changes in the Velocity of M1
(In percent, at an annual rate)

	2-Quarter Moving Average				3-Quarter Moving Average				4-Quarter Moving Average			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q2	Q4
1960	9.5	5.3P	-1.2	-2.5	4.9	6.4P	2.7	-1.6	5.7	3.7P	4.2	1.4
1961	-0.9T	3.1	5.0	5.8	-1.4T	1.3	3.5	5.7	-1.0T	0.3	2.0	4.3
1962	6.6	4.7	4.1	3.2	5.8	5.5	4.7	3.2	5.8	5.2	5.3	3.9
1963	1.4	1.7	2.9	3.4	2.5	1.7	2.3	3.0	2.7	2.4	2.1	2.5
1964	4.5	4.2	0.8	-1.2	4.1	3.8	2.4	0.1	3.7	3.8	2.6	1.5
1965	4.0	7.3	4.7	4.3	2.3	4.4	6.2	4.7	2.4	3.1	4.3	5.8
1966	4.8	3.5	4.4	6.6	4.5	3.8	4.6	5.1	4.7	3.9	4.6	5.0
1967	2.8	-1.3	-0.9	1.2	4.1	1.3	-0.9	0.2	3.6	2.7	0.9	-0.1
1968	2.9	4.3	2.8	-0.6	1.8	3.6	3.0	1.4	1.0	2.7	2.8	1.9
1969	0.2	2.9	4.9	2.8P	0.3	1.4	3.9	3.1P	1.5	1.2	2.5	2.8P
1970	0.0	1.0	1.9	-1.1T	1.9	0.7	1.3	-0.1T	2.4	1.9	0.9	0.0T
1971	2.3	3.4	-0.8	2.1	2.2	0.9	2.4	0.8	2.1	1.2	0.8	2.7
1972	4.3	4.0	1.8	1.6	3.0	3.9	2.8	2.1	1.8	3.0	3.0	2.8
1973	5.4	5.2	3.6	5.7P	3.7	4.4	5.0	4.6P	3.6	3.4	4.5	5.4P
1974	1.6	1.6	5.5	2.9	2.6	3.3	2.5	4.1	2.6	3.6	3.6	3.0
1975	0.0T	1.2	6.3	8.3	1.4T	1.3	3.7	6.8	2.8T	2.0	3.1	4.8
1976	7.3	3.2	1.2	2.7	7.7	4.7	3.0	1.6	6.7	5.7	4.2	2.9
1977	4.0	5.1	4.5	2.3	3.6	4.2	5.1	3.1	2.6	3.9	4.5	3.7
1978	0.2	5.4	6.8	5.6	1.8	3.4	4.8	7.0	2.6	3.9	3.5	5.5
1979	7.2	1.4	-0.9	4.2	6.0	3.4	1.7	0.8	7.0	3.5	3.2	2.3
1980	4.6P	3.7	-0.3T	0.2	3.9P	3.8	1.5T	0.8	1.9P	3.4	2.2T	1.9
1981	8.1	4.3	3.1P	4.8	4.5	3.9	6.4P	1.6	3.9	2.2	5.6P	4.5
1982	-5.7	-3.6			-0.2	-2.8			-1.3	0.6		

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 20, 1982

To Steve Axilrod

Subject: Current Interest Rates

From Dana Johnson

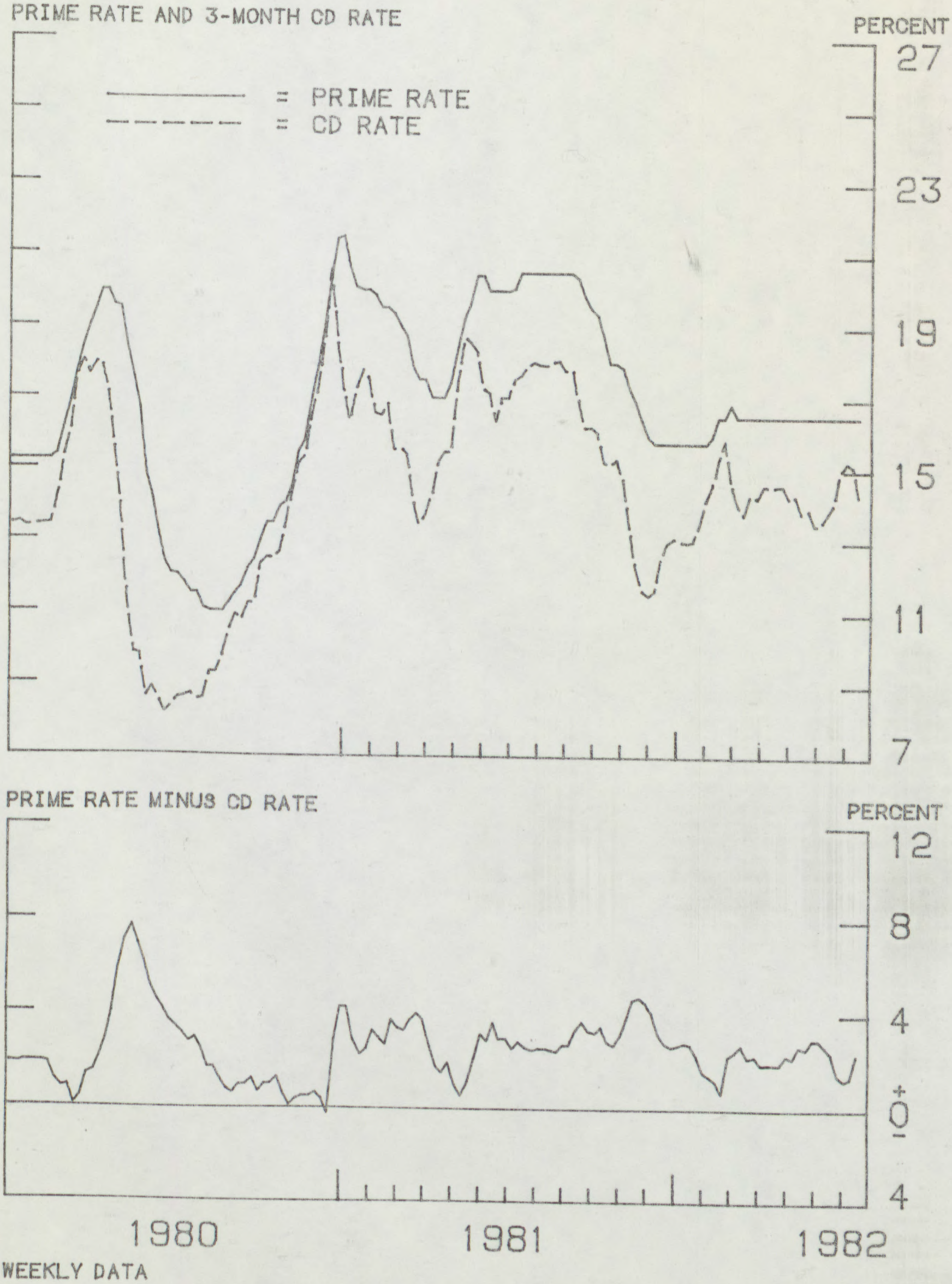
The prevailing prime rate is now 16 percent, with virtually all money center banks having announced changes by the close of business today.

The 3-month Treasury bill rate was 10.66 percent at the close, down 48 basis points from yesterday's auction average. This translates to a 11.11 percent yield, on an investment yield basis.

Late this afternoon, 3-month CDs were quoted at about 13 percent in secondary trading. This morning, the Desk reported an average yield in secondary trading around 12.75 percent. At that time, top 10 banks other than Continental and Chase were reportedly writing new 3-month CDs with yields in the 12.40--.50 percent area.

~~At this~~

BANK PRIME AND CD RATES



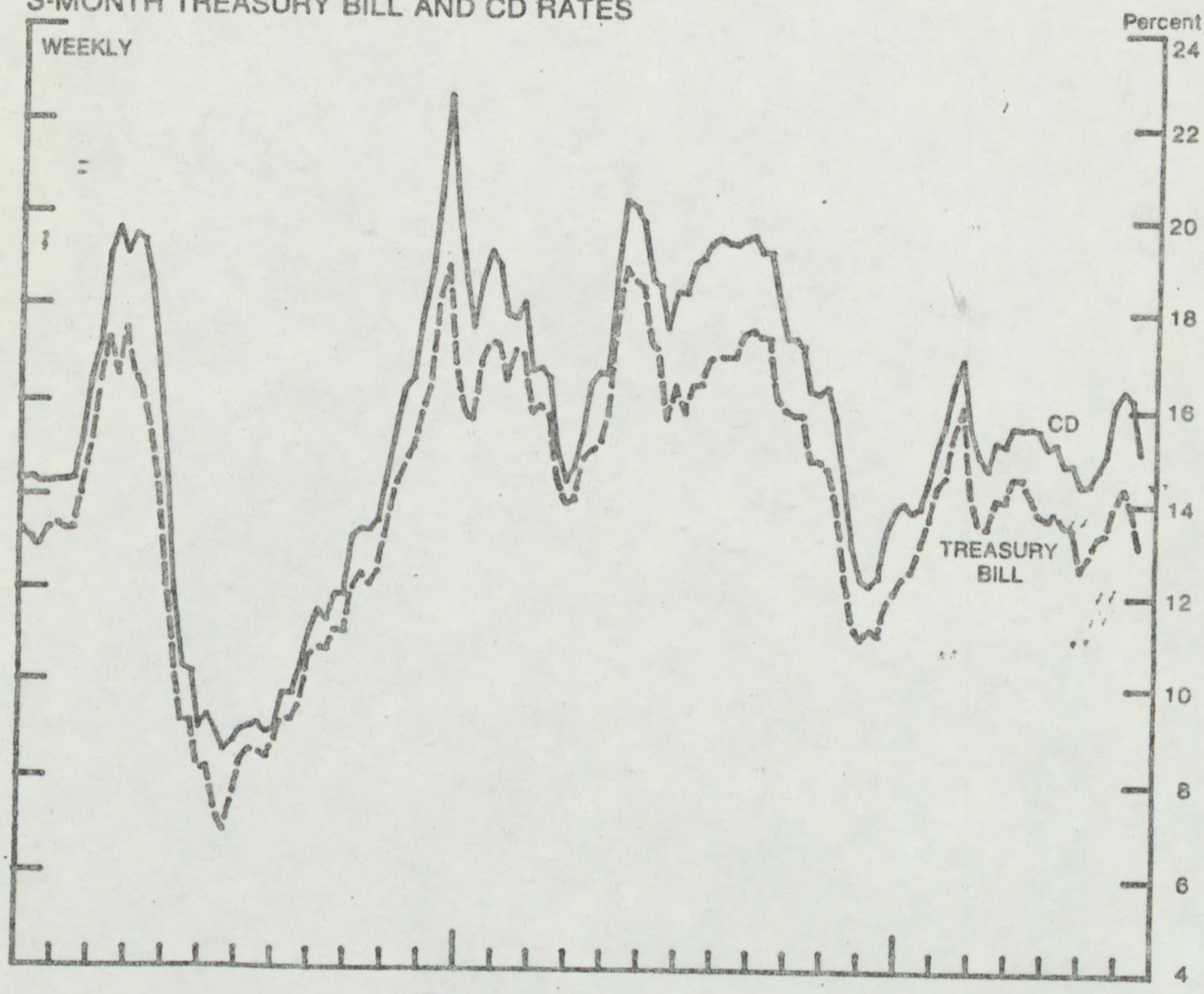
WEEKLY DATA

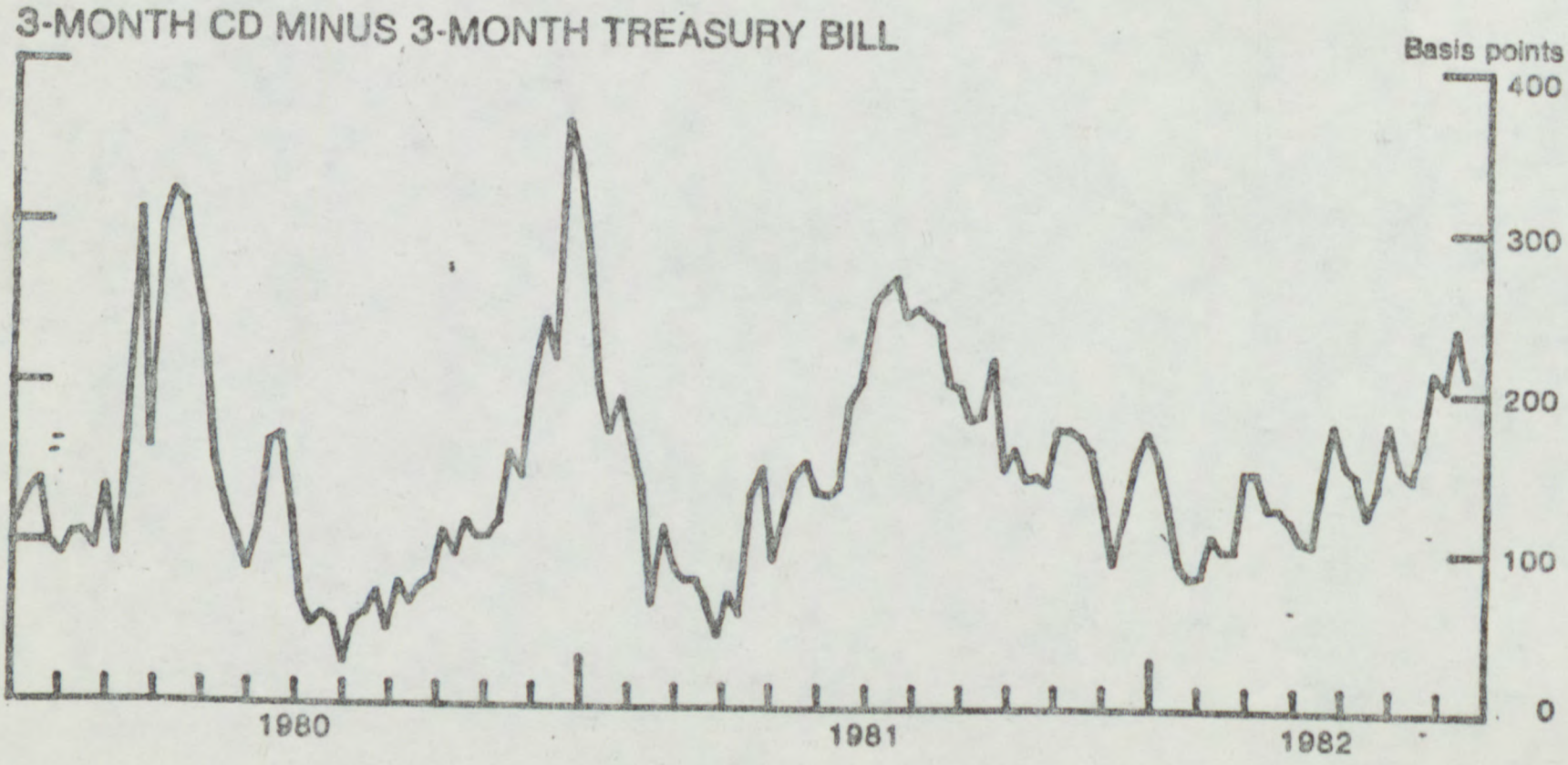
CHART 2

7/19/82

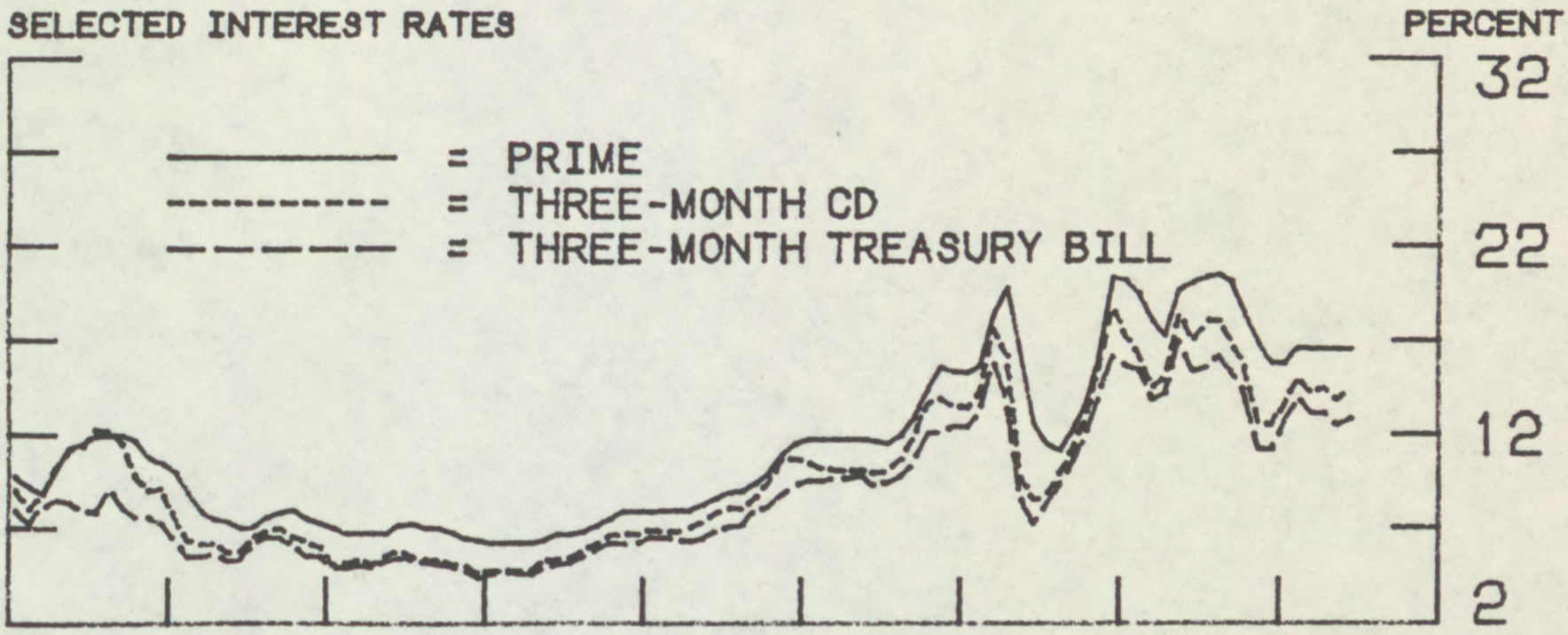
Treasury Bill and CD Rates

Investment Yield Basis

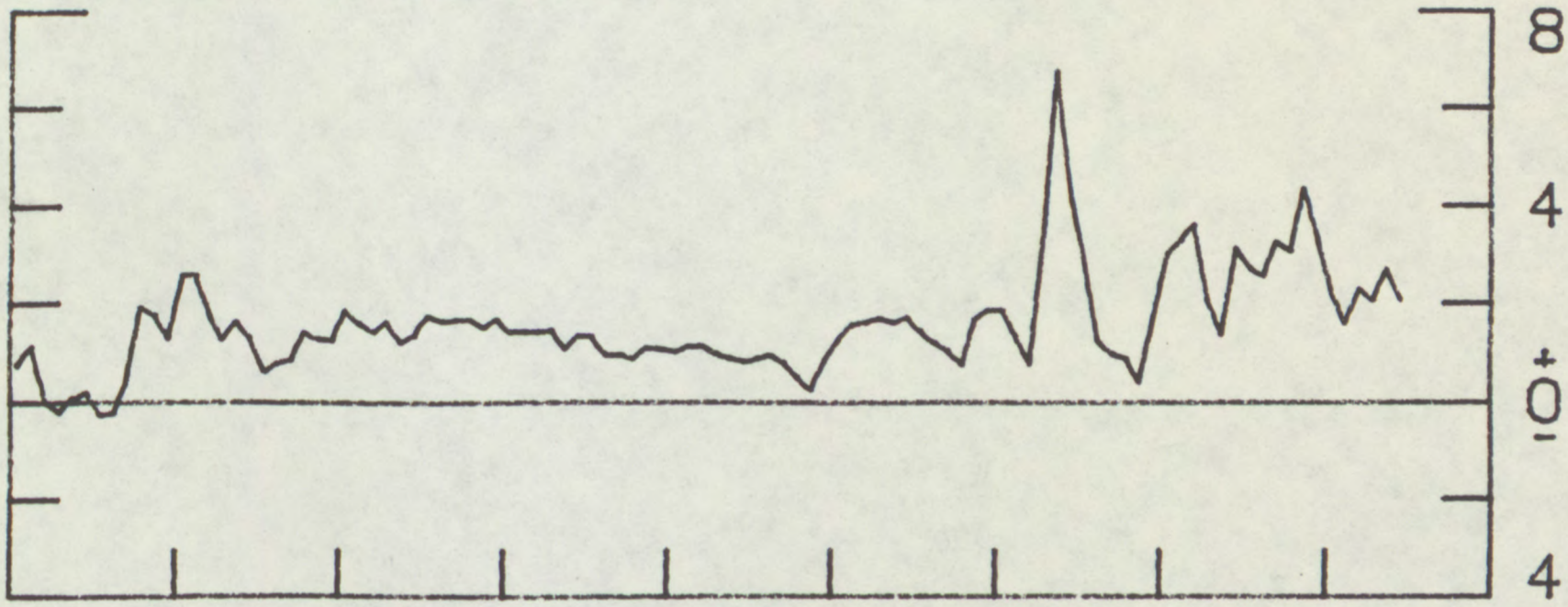




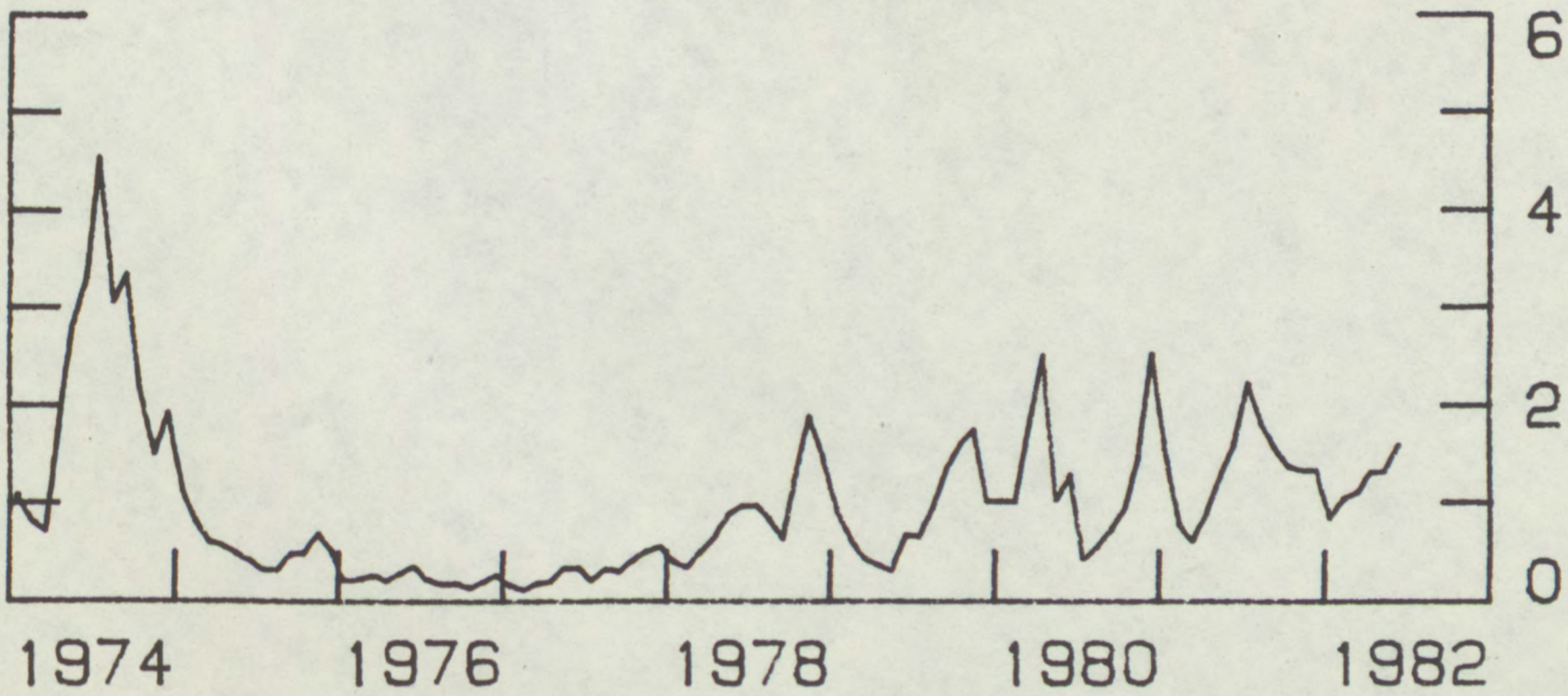
SELECTED INTEREST RATES



BANK PRIME LESS THREE-MONTH CD



THREE-MONTH CD LESS THREE-MONTH TREASURY BILL



CHAIRMAN VOLCKER

For Information Only

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 16, 1982

To Board of Governors

Subject: Short-term Business Lending in May At Rates Below The Prime Rate

From The Division of Research and Statistics
(Thomas F. Brady)

- FOR INFORMATION ONLY -

Data relating to the pricing of short-term business loans in May are summarized in the attached table. As shown in the first line, the share of gross short-term business loans extended at rates below the prime rate by 48 large banks rose to over 78 percent in May from 62 percent in November, while the spread between the rate on such loans and the prime rate widened somewhat from 61 basis points to 84 basis points. Loans made below prime typically are priced off of money market rates and the increased share of loans made below prime reflect in part an increase in the prime rate relative to money market rates between the February and May survey weeks. In addition, the increase appears to reflect bank's continued greater willingness to make such loans. Thus, the share of loans made below prime in May 1982 exceeds the proportion made in several earlier surveys, for example those for February and August 1981, when the spread between the prime rate and money market rates was wider.1/ The recent increase in below-prime lending at 48 large banks was centered entirely at money center banks. At non money center banks, the share of loans made below prime fell between August 1981 and May 1982.

1/ Recently, loans made below prime have begun to include varying amounts of loans made below money market rates. Presumably many of these are restructured loans. For the last three surveys of 1981, restructured loans are estimated to have accounted for around 6 percentage points of the share of loans made below prime. This estimate fell to under four percentage points in the survey for February 1982 and to less than one percentage point in the May survey.

Short-term credit at more traditional maturities such as 90 days frequently is offered to large creditworthy borrowers under revolving credit arrangements that give the option of taking down loans at rates based on prime or on market rates such as LIBOR. Many such loans are booked at foreign branches of U.S. banks and are not reflected in the data reported in the table.

SELECTED CHARACTERISTICS OF SHORT-TERM COMMERCIAL AND INDUSTRIAL LOANS MADE BY 48 LARGE BANKS

	1978	1979	1980	1980 Aug. 4-8	1980 Nov. 3-8	1981 Feb. 2-7	1981 May 4-9	1981 Aug. 3-8	1981 Nov. 2-7	1982 Feb. 1-6	1982 May 3-8
Percent of gross loan extensions made at rates below prime	16.4	32.9	47.1	64.7	20.3	71.5	38.0	75.0	85.0	62.3	78.6
Spread between prime rate and weighted average rate on loans made below prime (basis points)	81	100	206	212	65	181	65	136	218	61	84
Average loan size ($1,000)											
- loans made below prime	746	674	1934	4683	898	2811	894	3714	5379	5339	6777
- loans made at or above prime	173	221	312	223	593	248	580	367	234	622	401
Average maturity (months)[1]											
- loans made below prime	1.4	1.3	1.0	.7	1.2	.7	.9	.7	0.6	0.8	.7
- loans made at or above prime	3.4	3.5	3.0	3.2	1.9	2.7	1.7	2.5	3.7	1.6	2.1

Source: Survey of Terms of Bank Lending.
Note: Beginning August 1979, calculations are based on prime rates reported by banks; calculations for earlier periods employ the prevailing prime rate.

1. Average maturities are weighted by loan volumes exclusive of loans with no stated maturity (demand loans).

table #1

Targeted and Actual Growth of
Money and Bank Credit

(Percent changes, at seasonally adjusted annual rates)

		Actual Growth		
	FOMC Objective 1981Q4 to 1982Q4	1981Q4 to June '82	1981Q4 to 1982Q2	1981H1 to 1982H1
M1	2-1/2 to 5-1/2	5.6	6.8	4.7**
M2	6 to 9	9.4	9.7	9.7
M3	6-1/2 to 9-1/2	9.7	9.8	10.5
Bank Credit*	6 to 9	8.0	8.3	8.4

* The base for the bank credit target is the average level of December 1981 and January 1982, rather than the average for 1981Q4. This base was adopted because of the impact on the series of shifts of assets to the new international banking facilities (IBFs); the 1981H1-to-1982H1 figure has been adjusted for the impact of the initial shifting of assets to IBFs.

** Adjusted for impact of shifts to new NOW accounts in 1981.

Quarter	change in velocity	change in 3-month bill rate
64Q3	-1.1	.02
Q4	-1.3	1.80
67Q1	-0.9	-.70
2	-1.6	-.85
3	-0.2	.64
68Q4	-1.5	.39
69Q4	-0.3	.33
70Q4	-4.1	-.98
71Q2	-1.8	.41
74Q1	-3.5	.12
75Q1	-1.4	-1.61
76Q2	-0.4	.24
77Q4	-0.6	.61
79Q1	-4.1	.81
80Q3	-2.7	-.47
81Q2	-4.6	.52
Q4	-1.2	-3.31
82Q1	-10.1	1.06

~~South Fork~~

PROJECTIONS OF ECONOMIC ACTIVITY FOR 1982 AND 1983

	~~June~~ ~~Jan.~~ FR Staff 1982	FOMC Feb. Humphrey-Hawkins Report	Congress ~~CBO~~[1]	Administration ~~Reagan Budget~~ Mid-session Review
	------Fourth quarter to fourth quarter growth rate (percent)------			
Money (M1)				
1982	5.0 ~~4.0~~	2-1/2 - 5-1/2	5.5	2-1/2 - 5-1/2
1983	4.5 ~~3.5~~	2 1/2 - 5 1/2 ~~n.a.~~	n.a.	n.a.
Nominal GNP				
1982	5.8 ~~7.9~~	5 1/2 - 7 1/4 ~~8 - 10~~	8.6 ~~10.5~~	6.9 ~~10.4~~
1983	7.5 ~~7.6~~	7 - 9 1/2 ~~n.a.~~	11.6 ~~7.6~~	10.6 ~~11.0~~ 11.7
Real GNP				
1982	0.6 ~~1.3~~	0 - 1 1/2 ~~1/2 - 2-1/2~~	1.6 ~~2.8~~	1.7 ~~3.0~~
1983	3.0 ~~2.3~~	2 - 3 1/2 ~~n.a.~~	4.4 ~~3.9~~	~~4.8~~ ~~5.2~~ 4.4
GNP Deflator				
1982	5.3 ~~6.4~~	4 3/4 - 6 ~~6-1/2 - 7-3/4~~	6.9 ~~7.2~~	5.1 ~~7.2~~
1983	4.3 ~~5.1~~	4 - 6 ~~n.a.~~	6.9	~~5.8~~ ~~5.5~~ 7.0
CPI				
1982	4.9 ~~7.1~~	n.a.	5.8 ~~6.4~~	6.6[2]
1983	4.8 ~~5.4~~	n.a.	7.2	5.1[2]
	----------Level, fourth quarter----------			
Unemployment Rate (percent)				
1982	9.5 ~~9.3~~	9 - 9 3/4 ~~8-1/2 - 9-1/2~~	9.1 ~~8.7~~	~~9.0~~ ~~8.4~~ 9.1
1983	9.1	8 - 10 ~~n.a.~~	8.0 ~~7.6~~	~~8.2~~ ~~7.6~~ 8.0

1. ~~Represents mid-point of range.~~ First Concurrent Resolution on the Budget.
2. Administration projections refer to the CPI for urban wage earners and clerical workers; other forecasts refer to the CPI for all urban consumers.

n.a. - not available

The Congressional and

Union Calendar No. 227

96TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 96-396

SECOND REPORT ON MONETARY POLICY FOR 1979

JULY 27, 1979.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. REUSS, from the Committee on Banking, Finance and Urban Affairs, submitted the following

REPORT

together with

SUPPLEMENTAL VIEWS and DESSENTING VIEWS

Submitted herewith is the second report of the Committee on Banking, Finance and Urban Affairs pursuant to Public Law 95-523, the Full Employment and Balanced Growth Act of 1978. This legislation amended the Federal Reserve Act to require the following:

MONETARY POLICY

In furtherance of the purposes of the Full Employment and Balanced Growth Act of 1978, the Board of Governors of the Federal Reserve System shall transmit to the Congress, not later than February 20 and July 20 of each year, independent written reports setting forth (1) a review and analysis of recent developments affecting economic trends in the Nation; (2) the objectives and plans of the Board of Governors and the Federal Open Market Committee with respect to the ranges of growth or diminution of the monetary and credit aggregates for the calendar year during which the report is transmitted, taking account of past and prospective developments in employment, unemployment, production, investment, real income, productivity, international trade and payments, and prices; and (3) the relationship of the aforesaid objectives and plans to the short-term goals set forth in the most recent Economic Report of the President pursuant to section 3(a)(2)(A) of the Employment Act of 1946 and to any short-term goals approved by the Congress. In addi-

39-006 O

tion, as a part of its report on July 20 of each year, the Board of Governors shall include a statement of its objectives and plans with respect to the ranges of growth or diminution of the monetary and credit aggregates for the calendar year following the year in which the report is submitted. The reports required under the two preceding sentences shall be transmitted to the Congress and shall be referred in the Senate to the Committee on Banking, Housing, and Urban Affairs, and in the House of Representatives to the Committee on Banking, Finance and Urban Affairs. The Board shall consult with each such Committee on the reports and, thereafter, each such Committee shall submit to its respective body a report containing its views and recommendations with respect to the Federal Reserve's intended policies. Nothing in this Act shall be interpreted to require that the objectives and plans with respect to the ranges of growth or diminution of the monetary and credit aggregates disclosed in the reports submitted under this section be achieved if the Board of Governors and the Federal Open Market Committee determine that they cannot or should not be achieved because of changing conditions: *Provided*, That in the subsequent consultations with, and reports to, the aforesaid Committees of the Congress pursuant to this section, the Board of Governors shall include an explanation of the reasons for any revisions to or deviations from such objectives and plans.

By most projections, including those of the Federal Reserve Board, the U.S. economy now faces an early recession together with continuing inflation. The Board has estimated, that, in the worst case, in 1979 the real output may fall by 2 percent, unemployment may rise by over 1.5 million persons to yearend rate of 7 percent, while inflation accelerates to 11 percent. Your committee views these possibilities with deep concern, particularly because past predictions of inflation generally have been low and nearly all past recessions have turned out to be more serious than predicted.

No individual, agency, corporation or foreign power bears sole responsibility for our present condition. Contributing influences include the recent OPEC price actions, labor-management disputes, poor weather last winter and mistaken policies over many years. The monetary policies of the Federal Reserve have also played a role. Since November 1, 1978, the Federal Reserve has maintained the Federal funds rate near or above 10 percent. In consequence, the money supply (including ATS and NOW accounts), which had grown at an annual rate of 8.3 percent from September 1976 to September 1978, at first decelerated sharply. Adjusted money growth fell to an annual rate of 3.8 percent from September 1978 through March 1979. But in the April–June quarter of 1979 inflation accelerated, business loan demand surged, and the consequence, given the Federal Reserve's fixed interest-rate policy, was a sharp recovery of monetary growth, especially in June.

In February 1979, the Federal Reserve reported to Congress that its objective for monetary growth from the fourth quarter of 1978 to the fourth quarter of 1979 was between 1.5 and 4.5 percent, assuming a growth of ATS and NOW accounts equivalent to 3 percent of M1.

This translates to a range of 4.5 to 7.5 percent growth in M1 plus ATS and NOW accounts, and agrees with your committee's recommendation of 6 percent growth in that aggregate this year. Measured monthly, the shift to ATS and NOW accounts, from the fourth quarter of 1978 to June 1979, has been about 2 percent of M1, while M1 has grown at a rate of 3.7 percent per year. Accordingly, the money supply adjusted for ATS and NOW accounts has been growing at 5.7 percent per year, slightly below your committee's recommendation and near the middle of the Federal Reserve's announced range.

Your committee repeats its view, expressed in its report to the Congress last March, that monetary policy should consistently promote economic stability, and not alternate between stimulus and restraint. Your committee fears that a policy of simply pegging the Federal funds rate may not be compatible with this recommendation. In the period from September 1978 through March 1979, the Federal funds rate was set too high. This policy caused the growth of the money supply to fall dangerously. In the April–June quarter inflation accelerated and real GNP began to decline at a 3.3-percent annual rate. Given the Federal Reserve's policy of pegging the funds rate, the money supply responded by accelerating rapidly. Because the economic outlook is for both recession and inflation the Federal Reserve should focus on keeping to the money supply targets it has presented.

A. MONETARY POLICY SHOULD NOT BE DESIGNED TO RECESSION

Your committee continues to believe that policies designed to wring inflation out of the economy with negative growth and high unemployment cannot work. Such policies suppress investment, rendering progress toward higher productivity and lower unit costs and prices difficult. Recessions weaken the competitive position of American industry, and thereby set the stage for larger trade deficits, a weaker dollar and higher monetary growth and inflation.

Moreover, as your committee has argued in the past, policies that attempt to cure inflation quickly by courting recession are self-defeating. No democratic government can long bear the cost of intentional unemployment and foregone output mounting to the tens of billions of dollars. Antirecessionary fiscal policies can be avoided only by avoiding a serious recession in the first place, which in turn requires a policy of long-term monetary moderation to avoid destabilizing swings and inflationary trends that aggravate the evils of recession. Your committee trusts that the Federal Reserve will conduct monetary policy over the next 6 months with this reality firmly in mind.

B. A STABLE MONETARY POLICY SHOULD TAKE PRECEDENCE OVER EFFORTS TO PROP UP THE INTERNATIONAL DOLLAR

In November of 1978, the Federal Reserve acted to raise the level of short-term interest rates, so as to support the dollar in foreign exchange markets. Without doubt, the initial intervention last autumn was timely and successful. Since then, however, the dollar has resumed its decline, and it is increasingly doubtful that further increases in interest rates can achieve more than a short delay in exchange rate adjustment, and this only at a high cost. Your committee recommends that the Federal Reserve promote a strong noninflationary

domestic economy as the means of supporting the dollar, that it not intervene in the foreign exchange markets except to relieve disorderly market conditions, and that it refrain from further use of the short-term interest rates under its control for the purpose of propping up the dollar. We firmly believe that a strong, steady, noninflationary, investment-oriented expansion, and that alone, can restore America's competitive position in international trade and strength to the American dollar. Monetary policy should be geared to achieving this long-run objective.

C. PUBLICATION OF THE FEDERAL RESERVE BOARD'S ECONOMIC PROJECTIONS IS AN IMPORTANT STEP FORWARD

In the report submitted to the Congress on July 17, the Federal Reserve Board for the first time published official projections for nominal and real gross national project, thet rate of inflation, and the rate of unemployment in 1979 and 1980. Your committee has long sought and often requested this information—it has done so in every hearing since regular monetary policy oversight began under House Congressional Resolution 133 in 1975. We feel that this step constitutes a definite improvement in monetary policy oversight, and we look forward to a steady increase in the scope of the Federal Reserve's economic expertise which may be made available to the Congress and the American people in the future.

The law requires the Federal Reserve to report on its monetary targets for 1980. In this the report is disappointing. The Federal Reserve merely indicates that tentative approval has been given to retention of the present targets through 1980. No justification is offered. This is particularly distressing in view of your committee's recommendation in its report of March 12, 1979 that long-term monetary growth targets should be adopted. Your committee requests that the Federal Reserve promptly correct this defect by issuing a supplement to the report, fully explaining its monetary targets for 1980.

D. OVERNIGHT REPURCHASE AGREEMENTS SHOULD BE MENTIONED

In its report to the Congress last March, your committee recommended that the Federal Reserve begin immediately to monitor overnight repurchase agreements—agreements between commercial banks and large depositors on the daily purchase and resale of securities that may impart a downward bias to the measure of M1. The Federal Reserve has not responded as yet to this recommendation, and we therefore renew it with increased urgency.

E. CONCLUSIONS

The economic outlook today is markedly worse than when your committee submitted its first report to Congress under the Humphrey-Hawkins law 4 months ago. Yet the general recommendation we made at that time, that the Federal Reserve should pursue moderation and consistency in monetary policy, remains valid. Roller coaster monetary policies do not work, whether they seek to cure inflation by a sharp rise in unemployment or to eliminate unemployment at the cost of sharply accelerating inflation. The economy currently has relatively

high capacity utilization, high interest rates, and sharply rising resource prices: a situation that closely resembles the summer of 1974. The Federal Reserve has, as it did then, the power to push us over the brink into a deep recession or accelerating inflation, or both. Or it can pursue a policy of stable economic growth and moderate monetary expansion, guiding the economy toward the high levels of investment that we need to cure our unacceptably low productivity and high unemployment.

Your committee agrees with the Federal Reserve that its previously established growth ranges for the monetary aggregates for 1979 are still appropriate. We are, however, disappointed that the Federal Reserve has failed to set longer-term targets for progressive deceleration in monetary growth, such as we recommended in our report of March 12, 1979. Because, as your committee stated in that earlier report, achievement of the interim 1983 goals of the Humphrey-Hawkins Act (4 percent unemployment and 3 percent inflation) would be promoted by steady deceleration in the average annual rate of monetary expansion over the next 5 years, we renew our recommendation for the establishment of the long-term targets we specified in the report of March 12, 1979, as follows:

Recommended percent growth 4th quarter to 4th quarter M1 (adusted) 1978–83 [1]

	Percent
1978	7.6
1979	6.0
1980	5.0
1981	4.0
1982	3.0
1983	3.0

[1] Assuming continuation of the present approximately 3 percent velocity growth trend.

SUPPLEMENTAL VIEWS OF HON. S. WILLIAM GREEN[1]

I am in general agreement with the committee's report on monetary policy for 1979. However, I believe there are current developments which deserve fuller consideration because of their impact on inflation and the Federal Reserve's ability to control the money supply.

First, while money supply during the time period covered by Chairman Miller's report was below or within 1979 target growth ranges, the most recent trend would soon push it out of those ranges. Based on preliminary information for July, the money supply is pushing the upper limit of the growth range and threatens to break out. If the current pace continues for the balance of 1979, money supply growth will be well beyond the 4½-percent upper limit of the growth range set for 1979. Obviously, this will push the already intolerable rate of inflation even higher, and such monetary expansion is contrary to the Federal Reserve's February recommendation that moderate steady expansion is essential for long-term economic stability. Although one month of monetary growth may not be a good indicator of longer term money growth because of statistical problems, the Federal Reserve should be alerted and any trend toward a faster pace of monetary expansion must be countered immediately by the Federal Reserve.

Second, the Federal Reserve's task has been complicated by international financial problems. The dollar has fallen back to the "pre-rescue" levels of October 1978 because of international lack of confidence in and uncertainty over President Carter's energy and economic policies. President Carter advertised his speech as "the turning point" and it was for the dollar: a turn downward. A more decisive response on the energy situation from the President—specifically, decontrol of oil prices—would have had a more positive impact. Because of the President's indecisiveness, the Federal Reserve has recently had to provide more support for the dollar by raising the discount rate ½ percentage point, raising the Federal funds rate target and intervening in foreign exchange markets. These moves are neither appropriate nor adequate to dealing with the fundamental problems caused by our failure to come to grips with our rapidly changing energy situation.

Finally, I consider it appropriate to comment on the Federal Reserve's "monetization" of the Federal deficit. The Federal budget determines the level of the Government's deficit or surplus. That, in turn, is significant for our overall economic well-being. It is theoretically possible to run a major deficit without an inflationary impact if the Federal Reserve System does not increase the money supply. But, in practice, the Federal Reserve simply cannot take the political heat that often results when Federal deficit financing "crowds out" private sector borrowing. As a result, major Federal deficits almost invariably have an ultimate inflationary impact when the Federal Reserve System creates money to finance such deficits. In the first budget resolution, the House adopted a $23.3 billion deficit level. I believe that a lower deficit could have been reached and would make the Fed's job easier.

S. WILLIAM GREEN.
J. WILLIAM STANTON.

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[1] Although many minority members would have joined in signing these views, including myself, time constraints did not provide the opportunity to circulate them to all members.

SECOND REPORT ON MONETARY POLICY FOR 1979
DISSENTING VIEWS OF RON PAUL

In the committee's report on the first Governors' report of 1979, there appeared a recommendation for reinflation of the money supply to avoid recession. The Federal Reserve, unfortunately, seems to have taken this advice, since it appears that the monetary aggregates are growing considerably faster than they were earlier this year. The result, as the present committee report makes clear, is that "the U.S. economy now faces an early recession together with continuing inflation." Political manipulation of money can only lead to price inflation, recession (or depression), or stagflation, as I warned in my dissenting views to the first committee report. I had hoped that my prediction of an inevitable recession would not be fulfilled so promptly, but apparently the Fed moves fast.

It is worth reemphasizing that it is Government's control of our money that is the cause of our problems, for both the Fed's report to the Congress and the committee's report implicitly denies this. The committee report states:

> No individual, agency, corporation or foreign power bears sole responsibility for our present condition. Contributing influences include the recent OPEC price actions, labor-management disputes, poor weather last winter and mistaken policies over many years.

The committee adds, almost as an afterthought, that "The monetary policies of the Federal Reserve have also played a role." That is the understatement of the decade. The Fed has been increasing the money supply for decades, and the result is ever-worsening price inflation. There could have been no other result, and there will be no other result until Government is removed from the monopolistic control of money it enjoys and the people endure.

During his testimony before the committee, Chairman Miller—now Treasury Secretary Miller—repeatedly blamed OPEC for at least a significant part of our present price inflation. Apparently the Eizenstat memorandum suggesting that OPEC be painted as the enemy has been adopted by the Federal Reserve as well as the administration. The claim, however, is preposterous. On January 1, 1974, the OPEC price of crude oil was $10.95 per barrel. Gold was $112.75 per ounce. An ounce of gold would buy 10.3 barrels of OPEC crude. Today, OPEC crude is $20 per barrel, and gold is over $300 per ounce. In constant gold dollars, a barrel of OPEC crude oil is less expensive today than it was 5 years ago. For the same ounce of gold, one can buy five more barrels of oil in July 1979 than one could in January 1974. Oil is cheaper today than it was in 1974—in terms of gold. In terms of paper dollars it has doubled in price, but that is the fault of the dollars, not the Arabs. It is not the crude that is becoming more valuable, but

the dollars that are becoming worth less. OPEC is able to demand and get higher dollar prices simply because of the inflationary monetary policies that the Federal Reserve is pursuing. It is completely in error to blame either price inflation or money inflation on OPEC. Is it any wonder that the Arabs are now reported to be the principal purchasers of gold on the bullion market? Their confidence in the dollar is rightfully waning.

A fortiori it is wrong to blame "labor-management disputes." Neither labor unions nor businesses have the power to print money. There can be a general price rise only if there is an increase in the supply of money or a decrease in the demand for money. There can be an increase in the supply of money only if the Government wills it, and the demand for money falls only when the people have lost confidence in it due to the inflationary policies of the Government. To shift the blame to labor or business is to use the Eizenstat ploy on a domestic rather than international level. The fact is that it is the Government that is responsible for the depreciation of our money since it has dictatorial powers over our money supply.

Most astonishing of all is the Federal Reserve's and the committee's contention that "poor weather" is to blame for our inflation. For decades we have heard how the weather is to blame for crop failures and other snafus in Communist nations, and it is somewhat sinister that we are now officially blaming the weather for inflation. Will the next step be to blame "enemies of the people"? All sort of factors can affect particular prices, but only one can affect prices in general: the money supply. The weather certainly cannot increase or decrease the money supply—that is the sole prerogative of the Government. Blaming the weather is using the Eizenstat method on the cosmic level, and someone needs to point it out.

The committee is absolutely correct when it states that the "policies of the Federal Reserve" have played a role in our inflation. It is also 100 percent accurate when it blames "mistaken (government) policies over many years." These mistaken policies must be first correctly identified before they can be rooted out. The committee presumes, without warrant and against the evidence, that the Fed can pursue correct policies. Even if we assure that the Fed can calculate accurate figures on which to base its policies (a very doubtful assumption), the Fed cannot act either wisely or well. Any policy the Fed pursues at this point will contribute either to inflation or recession. It cannot steer a stable course because its actions are inherently destablizing. It is only the grace of God and the incredible resilience of the market economy that have kept the policies of the Fed from destroying us already. It is the height of presumptuousness to believe that any political institution can properly manipulate the money supply. Inflations and recessions will continue until we adopt a sound monetary system that does not require the intervention or activity of the Government except to the extent that the Government should intervenue in any situation: to punish the perpetrators of fraud and the users of force. But this Government, as presently organized, is in no position to start prosecuting the users of fraud and force in the monetary system.

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For release on delivery
Wednesday, July 21, 1982
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Statement by

Paul A. Volcker

Chairman, Board of Governors of the Federal Reserve System

before the

Committee on Banking, Finance and Urban Affairs

House of Representatives

July 21, 1982

I am pleased to have this opportunity once again to discuss monetary policy with you within the context of recent and prospective economic developments. As usual on these occasions, you have the Board of Governors' "Humphrey-Hawkins" Report before you. This morning I want to enlarge upon some aspects of that Report and amplify as fully as I can my thinking with respect to the period ahead.

In assessing the current economic situation, I believe the comments I made five months ago remain relevant. Without repeating that analysis in detail, I would emphasize that we stand at an important crossroads for the economy and economic policy.

In these past two years we have traveled a considerable way toward reversing the inflationary trend of the previous decade or more. I would recall to you that, by the late 1970s, that trend had shown every sign of feeding upon itself and tending to accelerate to the point where it threatened to undermine the foundations of our economy. Dealing with inflation was accepted as a top national priority, and, as events developed, that task fell almost entirely to monetary policy.

In the best of circumstances, changing entrenched patterns of inflationary behavior and expectations -- in financial markets, in the practices of business and financial institutions, and in labor negotiations -- is a difficult and potentially painful process. Those, consciously or not, who had come to "bet" on rising prices and the ready availability of relatively cheap

credit to mask the risks of rising costs, poor productivity, aggressive lending, or over-extended financial positions have found themselves in a particularly difficult position.

The pressures on financial markets and interest rates have been aggravated by concerns over prospective huge volumes of Treasury financing, and by the need of some businesses to borrow at a time of a severe squeeze on profits. Lags in the adjustment of nominal wages and other costs to the prospects for sharply reduced inflation are perhaps inevitable, but have the effect of prolonging the pressure on profits -- and indirectly on financial markets and employment. Remaining doubts and skepticism that public policy will "carry through" on the effort to restore stability also affect interest rates, perhaps most particularly in the longer-term markets.

In fact, the evidence now seems to me strong that the inflationary tide has turned in a fundamental way. In stating that, I do not rely entirely on the exceptionally favorable consumer and producer price data thus far this year, when the recorded rates of price increase (at annual rates) declined to 3½ and 2½%, respectively. That apparent improvement was magnified by some factors likely to prove temporary, including, of course, the intensity of the recession; those price indices are likely to appear somewhat less favorable in the second half of the year. What seems to me more important for the longer run is that the trend of underlying costs and nominal wages has begun to move lower, and that trend should be sustainable as the

economy recovers upward momentum. While less easy to identify -- labor productivity typically does poorly during periods of business decline -- there are encouraging signs that both management and workers are giving more intense attention to the effort to improve productivity. That effort should "pay off" in a period of business expansion, helping to hold down costs and encouraging a revival of profits, setting the stage for the sustained growth in real income we want.

I am acutely aware that these gains against inflation have been achieved in a context of serious recession. Millions of workers are unemployed, many businesses are hardpressed to maintain profitability, and business bankruptcies are at a postwar high. While it is true that some of the hardship can reasonably be traced to mistakes in management or personal judgment, including presumptions that inflation would continue, large areas of the country and sectors of the economy have been swept up in more generalized difficulty. Our financial system has great strength and resiliency, but particular points of strain have been evident.

Quite obviously, a successful program to deal with inflation, with productivity, and with the other economic and social problems we face cannot be built on a crumbling foundation of continuing recession. As you know, there have been some indications -- most broadly reflected in the rough stability of the real GNP in the second quarter and small increases in the leading indicators -- that the downward adjustments may be drawing

to a close. The tax reduction effective July 1, higher social security payments, rising defense spending and orders, and the reductions in inventory already achieved, all tend to support the generally held view among economists that some recovery is likely in the second half of the year.

I am also conscious of the fact that the leveling off of the GNP has masked continuing weakness in important sectors of the economy. In its early stages, the prospective recovery must be led largely by consumer spending. But to be sustained over time, and to support continuing growth in productivity and living standards, more investment will be necessary. At present, as you know, business investment is moving lower. House building has remained at depressed levels; despite some small gains in starts during the spring, the cyclical strength "normal" in that industry in the early stages of recovery is lacking. Exports have been adversely affected by the relative strength of the dollar in exchange markets.

I must also emphasize that the current problems of the American economy have strong parallels abroad. Governments around the world have faced, in greater or lesser degree, both inflationary and fiscal problems. As they have come to grips with those problems, growth has been slow or non-existent, and the recessionary tendencies in various countries have fed back, one on another.

In sum, we are in a situation that obviously warrants concern, but also has great opportunities. Those opportunities lie in major part in achieving lasting progress -- in pinning

down and extending what has already been achieved -- toward price stability. In doing so, we will be laying the base for sustaining recovery over many years ahead, and for much lower interest rates, even as the economy grows. Conversely, to fail in that task now, when so much headway has been made, could only greatly complicate the problems of the economy over time. I find it difficult to suggest when and how a credible attack could be renewed on inflation should we neglect completing the job now. Certainly the doubts and skepticism about our capacity to deal with inflation -- which now seem to be yielding -- would be amplified, with unfortunate consequences for financial markets and ultimately for the economy.

I am certain that many of the questions, concerns and dangers in your mind lie in the short run -- and that those in good part revolve around the pressures in financial markets. Can we look forward to lower interest rates to support the expansion in investment and housing as the recovery takes hold? Is there, in fact, enough liquidity in the economy to support expansion -- but not so much that inflation is reignited? Will, in fact, the economy follow the recovery path so widely forecast in coming months?

These are the questions that we in the Federal Reserve must deal with in setting monetary policy. As we approach these policy decisions, we are particularly conscious of the fact that monetary policy, however important, is only one instrument of economic policy. Success in reaching our common objective of a strong and prosperous economy depends upon more

than appropriate monetary policies, and I will touch this morning on what seem to me appropriately complementary policies in the public and private sectors.

The Monetary Targets

Five months ago, in presenting our monetary and credit targets for 1982, I noted some unusual factors could be at work tending to increase the desire of individuals and businesses to hold assets in the relatively liquid forms encompassed in the various definitions of money. Partly for that reason -- and recognizing that the conventional base for the M1 target of the fourth quarter of 1981 was relatively low -- I indicated that the Federal Open Market Committee contemplated growth toward the upper ends of the specified ranges. Given the "bulge" early in the year in M1, the Committee also contemplated that that particular measure of money might for some months remain above a "straight line" projection of the targeted range from the fourth quarter of 1981 to the fourth quarter of 1982.

As events developed, M1 and M2 both remained somewhat above straight line paths until very recently. M3 and bank credit have remained generally within the indicated range, although close to the upper ends. (See Table I.) Taking the latest full month of June, M1 grew 5.6% from the base period and M2 9.4%, close to the top of the ranges. To the second quarter as a whole, the growth was higher, at 6.8% and 9.7%, respectively. Looked at on a year-over-year basis, which appropriately tends to average through volatile monthly and quarterly figures, M1 during the first half of 1982 averaged about 4-3/4% above the

first half of 1981 (after accounting for NOW account shifts early last year). On the same basis, M2 and M3 grew by 9.7 and 10.5 percent, respectively, a rate of growth distinctly faster than the nominal GNP over the same interval.

In conducting policy during this period, the Committee was sensitive to indications that the desire of individuals and others for liquidity was unusually high, apparently reflecting concerns and uncertainties about the business and financial situation. One reflection of that may be found in unusually large declines in "velocity" over the period -- that is, the ratio of measures of money to the gross national product. M1 velocity -- particularly for periods as short as three to six months -- is historically volatile. A cyclical tendency to slow (relative to its upward trend) during recessions is common. But an actual decline for two consecutive quarters, as happened late in 1981 and the first quarter of 1982, is rather unusual. The magnitude of the decline during the first quarter was larger than in any quarter of the entire postwar period. Moreover, declines in velocity of this magnitude and duration are often accompanied by (and are related to) reduced short-term interest rates. Those interest rate levels during the first half of 1982 were distinctly lower than during much of 1980 and 1981, but they rose above the levels reached in the closing months of last year.

More direct evidence of the desire for liquidity or precautionary balances affecting M1 can be found in the behavior of NOW accounts. As you know, NOW accounts are a relatively

new instrument, and we have no experience of behavior over the course of a full business cycle. We do know that NOW accounts are essentially confined to individuals, their turnover relative to demand accounts is relatively low, and, from the standpoint of the owner, they have some of the characteristics of savings deposits, including a similarly low interest rate but easy access on demand. We also know the great bulk of the increase in M1 during the early part of the year -- almost 90% of the rise from the fourth quarter of 1981 to the second quarter of 1982 -- was concentrated in NOW accounts, even though only about a fifth of total M1 is held in that form. In contrast to the steep downward trend in low-interest savings accounts in recent years, savings account holdings have stabilized or even increased in 1982, suggesting the importance of a high degree of liquidity to many individuals in allocating their funds. A similar tendency to hold more savings deposits has been observed in earlier recessions.

I would add that the financial and liquidity positions of the household sector of the economy, as measured by conventional liquid asset and debt ratios, has improved during the recession period. Relative to income, debt repayment burdens have declined to the lowest level since 1976. Trends among business firms are clearly mixed. While many individual firms are under strong pressure, some rise in liquid asset holdings for the corporate sector as a whole appears to be developing. The gap between internal cash flow (that is, retained earnings and depreciation allowances) and spending for plant, equipment, and inventory

has also been at an historically low level, suggesting that a portion of recent business credit demands is designed to bolster liquidity. But, for many years, business liquidity ratios have tended to decline, and balance sheet ratios have reflected more dependence on short-term debt. In that perspective, any recent gains in liquidity appear small.

In the light of the evidence of the desire to hold more NOW accounts and other liquid balances for precautionary rather than transaction purposes during the months of recession, strong efforts to reduce further the growth rate of the monetary aggregates appeared inappropriate. Such an effort would have required more pressure on bank reserve positions -- and presumably more pressures on the money markets and interest rates in the short run. At the same time, an unrestrained build-up of money and liquidity clearly would have been inconsistent with the effort to sustain progress against inflation, both because liquidity demands could shift quickly and because our policy intentions could easily have been misconstrued. Periods of velocity decline over a quarter or two are typically followed by periods of relatively rapid increase. Those increases tend to be particularly large during cyclical recoveries. Indeed, velocity appears to have risen slightly during the second quarter, and the growth in NOW accounts has slowed.

Judgments on these seemingly technical considerations inevitably take on considerable importance in the target-setting process because the economic and financial consequences (including

the consequences for interest rates) of a particular M1 or M2 increase are dependent on the demand for money. Over longer periods, a certain stability in velocity trends can be observed, but there is a noticeable cyclical pattern. Taking account of those normal historical relationships, the various targets established at the beginning of the year were calculated to be consistent with economic recovery in a context of declining inflation. That remains our judgment today. Inflation has, in fact, receded more rapidly than anticipated at the start of the year potentially leaving more "room" for real growth. On that basis, the targets established early in the year still appeared broadly appropriate, and the Federal Open Market Committee decided at its recent meeting not to change them at this time.

However, the Committee also felt, in the light of developments during the first half, that growth around the top of those ranges would be fully acceptable. Moreover -- and I would emphasize this -- growth somewhat above the targeted ranges would be tolerated for a time in circumstances in which it appeared that precautionary or liquidity motivations, during a period of economic uncertainty and turbulence, were leading to stronger than anticipated demands for money. We will look to a variety of factors in reaching that judgment, including such technical factor as the behavior of different components in the money supply, the growth of credit, the behavior of banking and financial markets, and more broadly, the behavior of velocity and interest rates.

I believe it is timely for me to add that, in these circumstances, the Federal Reserve should not be expected to respond, and does not plan to respond, strongly to various "bulges" -- or for that matter "valleys" -- in monetary growth that seem likely to be temporary. As we have emphasized in the past, the data are subject to a good deal of statistical "noise" in any circumstances, and at times when demands for money and liquidity may be exceptionally volatile, more than usual caution is necessary in responding to "blips."*

We, of course, have a concrete instance at hand of a relatively large (and widely anticipated) jump in M1 in the first week of July -- possibly influenced to some degree by larger social security payments just before a long weekend. Following as it did a succession of money supply declines, that increase brought the most recent level for M1 barely above the June average, and it is not of concern to us.

It is in this context, and in view of recent declines in short-term market interest rates, that the Federal Reserve yesterday reduced the basic discount rate from 12 to 11½ percent.

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*In that connection, a number of observers have noted that the first month of a calendar quarter -- most noticeably in January and April -- sometimes shows an extraordinarily large increase in M1 -- amplified by the common practice of multiplying the actual change by 12 to show an annual rate. Those bulges, more typically than not, are partially "washed out" by slower than normal growth the following month. The standard seasonal adjustment techniques we use to smooth out monthly money supply variations -- indeed, any standard techniques -- may, in fact, be incapable of keeping up with rapidly changing patterns of financial behavior, as they affect seasonal patterns. A note attached to this statement sets forth some work in process developing new seasonal adjustment techniques.

In looking ahead to 1983, the Open Market Committee agreed that a decision at this time would -- even more obviously than usual -- need to be reviewed at the start of the year in the light of all the evidence as to the behavior of velocity,or money and liquidity demand,during the current year. Apart from the cyclical influences now at work, the possibility will need to be evaluated of a more lasting change in the trend of velocity.

The persistent rise in velocity during the past twenty years has been accompanied by rising inflation and interest rates -- both factors that encourage economization of cash balances. In addition, technological change in banking -- spurred in considerable part by the availability of computers -- has made it technically feasible to do more and more business on a proportionately smaller "cash" base. With incentives strong to minimize holdings of cash balances that bear no or low interest rates, and given the technical feasibility to do so, turnover of demand deposits has reached an annual rate of more than 300, quadruple the rate ten years ago. Technological change is continuing, and changes in regulation and bank practices are likely to permit still more economization of M1-type balances. However, lower rates of interest and inflation should moderate incentives to exploit that technology fully. In those conditions, velocity growth could slow, or conceivably at some point stop.

To conclude that the trend has in fact changed would clearly be premature, but it is a matter we will want to evaluate carefully as time passes. For now, the Committee felt that the

existing targets should be tentatively retained for next year. Since we expect to be around the top end of the ranges this year, those tentative targets would of course be fully consistent with somewhat slower growth in the monetary aggregates in 1983. Such a target would be appropriate on the assumption of a more or less normal cyclical rise in velocity. With inflation declining, the tentative targets would appear consistent with, and should support, continuing recovery at a moderate pace.

The Blend of Monetary and Fiscal Policy

The Congress, in adopting a budget resolution contemplating cuts in expenditures and some new revenues, also called upon the Federal Reserve to "reevaluate its monetary targets in order to assure that they are fully complementary to a new and more restrained fiscal policy." I can report that members of the Committee welcomed the determination of the Congress to achieve greater fiscal restraint, and I want particularly to recognize the leadership of members of the Budget Committees and others in achieving that result. In most difficult circumstances, progress is being made toward reducing the huge potential gap between receipts and expenditures. But I would be less than candid if I did not also report a strong sense that considerably more remains to be done to bring the deficit under control as the economy expands. The fiscal situation as we appraise it, continues to carry the implicit threat of "crowding out" business investment and housing as

the economy grows -- a process that would involve interest rates substantially higher than would otherwise be the case. For the more immediate future, we recognized that the need remains to convert the intentions expressed in the Budget Resolution into concrete legislative action.

In commenting on the budget, I would distinguish sharply between the "cyclical" and "structural" deficit -- that is, the portion of the deficit reflecting an imbalance between receipts and expenditures even in a satisfactorily growing economy with declining inflation. To the extent the deficit turns out to be larger than contemplated entirely because of a shortfall in economic growth, that "add on" would not be a source of so much concern. But the hard fact remains that, if the objectives of the Budget Resolution are fully reached, the deficit would be about as large in fiscal 1983 as this year even as the economy expands at a rate of 4 to 5 percent a year and inflation (and thus inflation generated revenues) remains higher than members of the Open Market Committee now expect.

In considering the question posed by the Budget Resolution, the Open Market Committee felt that full success in the budgetary effort should itself be a factor contributing to lower interest rates and reduced strains in financial markets. It would thus

assist importantly in the common effort to reduce inflationary pressures in the context of a growing economy. By relieving concern about future financing volume and inflationary expectations, I believe as a practical matter a credibly firmer budget posture might permit a degree of greater flexibility in the actual short-term execution of monetary policy without arousing inflationary fears. Specifically, market anxiety that short-run increases in the Ms might presage continuing monetization of the debt could be ameliorated. But any gains in these respects will of course be dependent on firmness in implementing the intentions set forth in the Resolution and on encouraging confidence among borrowers and investors that the effort will be sustained and reinforced in coming years.

Taking account of all these considerations, the Committee did not feel that the budgetary effort, important as it is, would in itself appropriately justify still greater growth in the monetary aggregates over time than I have anticipated. Indeed, excessive monetary growth -- and perceptions thereof -- would undercut any benefits from the budgetary effort with respect to inflationary expectations. We believe fiscal restraint should be viewed more as an important complement to appropriately disciplined monetary policy than as a substitute.

Concluding Comments

In an ideal world, less exclusive reliance on monetary policy to deal with inflation would no doubt have eased the strains and high interest rates that plague the economy and financial markets today. To the extent the fiscal process can now be brought more fully to bear on the problem, the better off we will be -- the more assurance we will have that interest rates will decline and keep declining during the period of recovery, and that we will be able to support the increases in investment and housing essential to healthy, sustained recovery. Efforts in the private sector -- to increase productivity, to reduce costs, and to avoid inflationary and job-threatening wage increases -- are also vital, even though the connection between the actions of individual firms and workers and the performance of the economy may not always be self-evident to the decision makers. We know progress is being made in these areas, and more progress will hasten full and strong expansion.

But we also know that we do not live in an ideal world. There is strong resistance to changing patterns of behavior and expectations ingrained over years of inflation. The slower the progress on the budget, the more industry and labor build in cost increases in anticipation of inflation or Government acts to protect markets or impede competition, the more highly speculative financing is undertaken, the greater the threat that available supplies of money and credit will be exhausted in financing rising prices instead of new jobs and growth. Those in vulnerable competitive positions are most likely to feel the

impact first and hardest, but unfortunately the difficulties spread over the economic landscape.

The hard fact remains that we cannot escape those dilemmas by a decision to give up the fight on inflation -- by declaring the battle won before it is. Such an approach would be transparently clear -- not just to you and me -- but to the investors, the businessmen and the workers who would, once again, find their suspicions confirmed that they had better prepare to live with inflation, and try to keep ahead of it. The reactions in financial markets and other sectors of the economy would, in the end, aggravate our problems, not eliminate them. It would strike me as the cruelest blow of all to the millions who have felt the pain of recession directly to suggest, in effect, it was all in vain.

I recognize months of recession and high interest rates have contributed to a sense of uncertainty. Businesses have postponed investment plans. Financial pressures have exposed lax practices and stretched balance sheet positions in some institutions -- financial as well as non-financial. The earnings position of the thrift industry remains poor.

But none of those problems can be dealt with successfully by re-inflation or by a lack of individual discipline. It is precisely that environment that contributed so much to the current difficulties.

In contrast, we are now seeing new attitudes of cost containment and productivity growth -- and ultimately our industry will be in a more robust competitive position. Millions are

benefitting from less rapid price increases -- or actually lower prices -- at their shopping centers and elsewhere. Consumer spending appears to be moving ahead, and inventory reductions help set the stage for production increases.

Those are developments that should help recovery get firmly underway. The process of disinflation has enough momentum to be sustained during the early stages of recovery -- and that success can breed further success as concerns about inflation recede. As recovery starts, the cash flow of business should improve. And, more confidence should encourage greater willingness among investors to purchase longer debt maturities. Those factors should, in turn, work toward reducing interest rates, and sustaining them at lower levels, encouraging in turn the revival of investment and housing we want.

I have indicated the Federal Reserve is sensitive to the special liquidity pressures that could develop during the current period of uncertainty. Moreover, the basic solidity of our financial system is backstopped by a strong structure of governmental institutions precisely designed to cope with the secondary effects of isolated failures. The recent problems related largely to the speculative activities of a few highly leveraged firms can and will be contained, and over time, an appropriate sense of prudence in taking risks will serve us well.

We have been through -- we are in -- a trying period. But too much has been accomplished not to move ahead and complete the job of laying the groundwork for a much stronger economy. As we look forward, not just to the next few months but to long

years, the rewards will be great: in renewed stability, in growth, and in higher employment and standards of living. That vision will not be accomplished by monetary policy alone. But we mean to do our part.

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Table I

Targeted and Actual Growth of
Money and Bank Credit

(Percent changes, at seasonally adjusted annual rates)

		Actual Growth		
	FOMC Objective 198104 to 198204	198104 to June '82	198104 to 198202	1981H1 to 1982H1
M1	2-1/2 to 5-1/2	5.6	6.8	4.7**
M2	6 to 9	9.4	9.7	9.7
M3	6-1/2 to 9-1/2	9.7	9.8	10.5
Bank Credit*	6 to 9	8.0	8.3	8.4

* The base for the bank credit target is the average level of December 1981 and January 1982, rather than the average for 198104. This base was adopted because of the impact on the series of shifts of assets to the new international banking facilities (IBFs); the 1981H1-to-1982H1 figure has been adjusted for the impact of the initial shifting of assets to IBFs.

** Adjusted for impact of shifts to new NOW accounts in 1981.

Appendix

Alternative Seasonal Adjustment Procedure

For some time the Federal Reserve has been investigating ways to improve its procedures for seasonal adjustment, particularly as they apply to the monetary aggregates. In June of last year, a group of prominent outside experts, asked by the Board to examine seasonal adjustment techniques, submitted their recommendations.[1/] The committee suggested, among other things, that the Board's staff develop seasonal factor estimates from a model-based procedure as an alternative to the widely used X-11 technique that provides the basis for the current seasonal adjustment procedure,[2/] and release the results.

The Board staff has been developing a procedure using statistical models tailored to each individual series.[3/] The table on the last page compares monthly and quarterly average growth rates for the current M1 series with those of an alternative series from the model-based approach.

Differences in seasonal adjustment techniques do not change the trend in monetary growth, but, as may be seen in the table, they do alter month-to-month growth rates owing to differing estimates of the

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1/ See Committee of Experts on Seasonal Adjustment Techniques, Seasonal Adjustment of the Monetary Aggregates (Board of Governors of the Federal Reserve System, October 1981).

2/ The current seasonal adjustment technique has most recently been summarized in the description to the mimeograph release of historical money stock data dated March 1982. Detailed descriptions of the X-11 program and variants can be obtained from technical paper no. 15 of the U. S. Department of Commerce (rev. February 1967) and from the report to the Board cited in footnote 1.

3/ The model-based seasonal adjustment procedures currently under review by the Board staff use methods based on the well-developed theory of statistical regression and time series modeling. These approaches allow development of seasonal factors that are more sensitive than the current factors to unique characteristics of each series, including, for example, fixed and evolving seasonal patterns, trading day effects, within-month seasonal variations, holiday effects, outlier adjustments, special events adjustments (such as the 1980 credit controls experience), and serially correlated noise components.

distribution over time of the seasonal component in money behavior. Short-run money growth is variable under both the alternative and current techniques of seasonal adjustment, illustrating the inherently large "noise" component of the series. However, the redistribution of the seasonal component under the alternative technique does on average tend to moderate month-to-month changes somewhat.

The Board will continue to publish seasonally adjusted estimates for M1 on both current and alternative bases at least until the annual review of seasonal factors in 1983. A detailed description of the alternative method will be available shortly.

Growth Rates of M1 Using Current[1] and Alternative[2] Seasonal Adjustment Procedures

(Monthly Average - Percent Annual Rates)

	1981			1982	
	Current	Alternative		Current	Alternative
Jan.	9.8	1.4	Jan.	21.0	11.4
Feb.	4.3	7.5	Feb.	-3.5	1.3
Mar.	14.3	16.0	Mar.	2.7	6.4
Apr.	25.2	22.6	Apr.	11.0	4.5
May	-11.4	-10.3	May	-2.4	0.5
June	-2.2	-0.6	June	-1.6	1.3
July	2.8	2.2			
Aug.	4.8	5.3			
Sept.	0.3	3.1			
Oct.	4.7	0.0			
Nov.	9.7	11.1			
Dec.	12.4	15.4			

(Quarterly Average - Percent Annual Rates)

QI	4.6	3.5	QI	10.4	9.5
QII	9.2	9.6	QII	3.1	3.4
QIII	0.3	0.9			
QIV	5.7	5.5			

1/ Current monthly seasonal factors are derived using an X-11/ARIMA-based procedure applied to monthly data.

2/ Alternative monthly seasonal factors are derived using a model-based procedure applied to weekly data.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 16, 1982

To Chairman Volcker

Subject:

From Division of Research and Statistics

The attached background material has been prepared for your Humphrey-Hawkins testimony on July 20 and 21. Updated information on housing starts and interest rates ~~will be provided on Monday when they become available.~~ is included.

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NONFINANCIAL DEVELOPMENTS

PROSPECTS FOR ECONOMIC ACTIVITY

1. There have been some signs recently that the contraction in economic activity is easing. Production cutbacks have improved inventory positions, housing starts have revived a bit, and consumer spending posted a perceptible gain in the second quarter. However, there is widespread weakness in capital spending. Meanwhile the underlying rates of increase in prices and wages continue to improve.

2. The staff expects real GNP to rise at a 2-3/4 percent annual rate in the second half of the year.

   a. A sizable increase in personal consumption expenditures is expected to provide the main impetus to recovery. Much of the rebound in consumption is attributable to the July 1 tax cut, which boosts household disposable income by around $30 billion at an annual rate. In addition, the downward trend in inflation this year has shored up real incomes, and the reduced debt burden of households leaves more room for credit-financed spending.

   b. Sharp cutbacks in production since last fall have eliminated most of the inventory overhang. On a constant-dollar basis, manufacturing and trade stocks in May were only slightly above the level in the first quarter of 1981. The liquidation is likely to continue for several months, but the completion of the correction over the second half of the year will provide some support to growth in orders and production.

   c. However, owing to persistent weakness in some sectors, the recovery is likely to be relatively sluggish. The increase in real GNP pro-

jected by the staff for the next year-and-a-half is about half that of previous recoveries.

- Business fixed investment will probably be held down by high interest rates, other financial stresses, and low utilization rates. Investment apparently contracted sharply in the second quarter, and near-term indicators point to further declines in real outlays this year.
- Purchases by state and local governments, which typically have expanded during recovery periods, are likely to decline further in real terms, in response to reduced federal support and weakness in tax collections.
- The strong dollar and weakness in foreign economic activity are expected to damp export demand this year.

3. Increases in food and energy prices are expected to raise aggregate inflation measures over the next few months. However, the underlying rate of inflation should continue to slow, owing to extensive slack in labor and product markets and improved inflation expectations.

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Percentage change from preceding period, annual rate)

	1980[1]	1981[1]	1982 Q1	1982 Q2[f]	1982 H2[f]
Constant dollars					
GNP	-.3	.9	-3.7	.7	2.7
Final sales	.1	.1	2.0	-1.3	1.2
Personal consumption	.6	1.1	3.4	1.4	4.3
Business fixed investment	-4.3	3.6	.9	-13.8	-9.1
Residential fixed investment	-12.9	-22.1	-10.0	-3.8	15.8
Government purchases	1.6	1.9	.0	-6.4	-.6
Current dollars					
GNP	9.4	9.8	.0	6.9	8.4
Inventory investment[2]	-5.9[3]	16.2[3]	-36.8	-19.5	-1.8[4]
Net exports[2]	23.3[3]	26.0[3]	31.5	44.8	31.3[4]
Addenda:					
GNP implicit deflator	9.7	8.9	3.8	6.1	5.5
GBP fixed-weighted price index	9.7	9.0	4.7	3.8	6.1
Personal saving rate (percent)	5.6[3]	5.3[3]	5.4	5.7	6.1[4]

1. Percent changes are from fourth quarter to fourth quarter
2. Level of spending, billions of dollars.
3. Annual average.
4. Half year average.

f -- Forecast, June 1982 Greenbook.

CURRENT ECONOMIC INDICATORS

	Industrial Production	Personal Income	Retail Sales		Auto Sales			Housing Starts
			Current Dollars	Constant Dollars	Total	Domestic	Imported	
	----Percent change, annual rate[1]----				--Millions of units, annual rate--			
1979	1.2	12.3	9.6	-.5	10.7	8.4	2.3	1.75
1980	-2.5	11.0	6.8	-3.3	9.0	6.6	2.4	1.29
1981	-1.7	10.2	5.4	-1.1	8.6	6.2	2.3	1.08
1981-Q1	8.4	11.8	15.4	6.4	10.0	7.3	2.7	1.40
Q2	1.9	8.7	7.2	2.1	7.9	5.6	2.3	1.17
Q3	1.4	12.9	4.9	-1.8	9.0	6.9	2.1	.96
Q4	-16.6	7.5	-5.0	-10.3	7.4	5.1	2.2	.87
1982-Q1	-11.7	4.0	.5	-2.8	8.1	5.9	2.2	.92
Q2	-6.9	n.a.	13.3	n.a.	7.5	5.5	2.0	n.a.
	----Percent change, monthly rate----							
1981-Jan.	.7	1.1	1.5	.9	9.3	6.9	2.4	1.59
Feb.	.3	.8	1.3	.6	10.3	7.3	2.9	1.29
Mar.	.2	1.0	1.1	.4	10.3	7.7	2.6	1.32
Apr.	-.1	.6	.2	-.1	8.1	5.8	2.3	1.30
May	.5	.6	.1	-.1	7.9	5.7	2.2	1.17
June	.1	.7	1.1	.8	7.6	5.4	2.2	1.05
July	.7	1.5	.0	-.7	8.2	5.9	2.3	1.04
Aug.	-.2	1.0	.8	.3	10.1	7.9	2.1	.95
Sept.	-1.3	.8	-.2	-1.1	8.8	6.9	2.0	.90
Oct.	-1.6	.5	-1.6	-2.0	7.2	5.1	2.0	.85
Nov.	-1.9	.7	.4	.1	7.7	5.4	2.3	.86
Dec.	-2.0	.0	-.2	-.4	7.3	4.9	2.4	.88
1982-Jan.	-1.9	.2	-1.4	-2.1	8.0	5.6	2.4	.89
Feb.	1.6	.6	2.5	2.4	8.5	6.2	2.3	.95
Mar.	-.8	.4	-.2	.2	7.9	5.9	2.0	.93
Apr.	-1.1	.3	1.2	1.3	7.3	5.5	1.8	.89
May	-.6	.7	2.7	1.9	8.4	6.4	2.0	1.09
June	-.7	n.a.	-1.5	n.a.	6.9	4.8	2.2	n.a.

1. Annual figures are calculated from fourth quarter to fourth quarter. Quarterly figures are at compound annual rates.

n.a. - not available

HOUSEHOLD SECTOR INDICATORS
(Seasonally adjusted)

	Real Disposable Personal Income	Real Consumption	Debt Service Burden[1]	Personal Saving Rate[2]
	--percent change, annual rate[3]--		--------percent---------	
1977	5.0	5.0	21.5	5.6
1978	3.9	4.8	22.3	5.2
1979	2.0	2.0	22.5	5.3
1980	.8	.6	21.8	5.6
1981	2.2	1.1	20.8	5.3
1981-Q1	3.0	5.8	21.4	4.6
Q2	1.4	-2.1	21.2	5.4
Q3	2.6	3.3	20.5	5.2
Q4	1.6	-2.2	20.3	6.1
1982-Q1	.0	3.4	20.4	5.4
	---percent change, monthly rate---		--------percent---------	
1982-Jan.	-.3	.3	n.a.	5.4
Feb.	.6	.8	n.a.	5.4
Mar.	.3	-.5	n.a.	5.7
Apr.	.6	.1	n.a.	5.8

1. Consumer installment and mortgage debt repayments as a percent of disposable personal income.
2. Monthly figures are based on centered 3-month moving averages.
3. Percent change at compound annual rate; annual figures are calculated from fourth quarter to fourth quarter.
n.a. - not available

BUSINESS SPENDING INDICATORS[1]
(Seasonally adjusted)

	Nondefense Capital Goods			Nonresidential Construction		Manufacturing and Trade Inventories		
	Orders							
	Current Dollars	Constant Dollars	Shipments	Contracts[2]	Put-in-place	Change (Annual Rate)	Inventory-Sales Ratio[3]	Change in Book Value (Annual Rate)
	----------Percent change----------					Billions of 1972 dollars		Billions of dollars
1978	29.1	20.0	20.8	41.5	26.7	12.4	1.60	45.8
1979	5.2	0.0	12.2	-3.2	23.3	7.2	1.63	48.2
1980	2.2	-5.0	10.0	-1.7	-2.1	-2.5	1.69	31.9
1981	-3.3	-5.1	5.0	8.3	17.4	5.8	1.69	36.2
	----------Percent change, quarterly rate----------							
1981-Q1	1.2	-2.5	1.4	-4.4	8.0	-1.3	1.63	44.6
Q2	1.9	.8	3.2	26.8	2.7	11.0	1.66	35.1
Q3	.2	1.3	.9	-22.1	4.2	12.5	1.69	53.3
Q4	-6.4	-4.6	-.5	14.7	1.6	1.0	1.76	11.8
1982-Q1	-4.5	-8.2	-5.3	-2.6	1.5	-16.6	1.75	-20.5
	----------Percent change, monthly rate----------							
1981-July	4.3	4.5	-2.7	-23.3	3.7	12.7	1.68	37.9
Aug.	2.0	2.4	2.7	-13.2	.7	7.1	1.69	55.0
Sept.	-6.8	-3.9	.1	17.2	.1	17.8	1.70	66.9
Oct.	-8.8	-12.9	-4.4	2.8	1.6	13.7	1.76	32.6
Nov.	13.4	20.2	3.8	-9.7	.2	8.2	1.76	34.7
Dec.	-5.4	-4.6	1.3	39.7	-1.2	-18.9	1.76	-31.9
1982-Jan.	-3.4	-7.8	-9.2	-1.5	1.0	-27.7	1.79	-26.3
Feb.	-5.9	-10.5	3.3	-27.5	2.1	-17.3	1.74	-26.9
Mar.	7.9	13.3	-.3	4.5	-.3	-4.8	1.73	-8.4
Apr.	-2.9	5.2	-5.9	-11.5	-.6	3.5	1.75	29.5
May	-7.9	-16.2	4.6	-15.2	2.0	n.a.	n.a.	-52.5

1. Annual percent changes are calculated from fourth quarter to fourth quarter; inventory changes are based on end-of-period data.
2. Derived by FRB staff from BCD contracts and orders data.
3. Based on constant dollar data; annual and quarterly figures represent averages of monthly data.
n.a. - not available

AUTOMOBILE PRODUCTION, SALES, AND INVENTORIES
(Millions of units; seasonally adjusted at annual rates)

	U.S. Production	Sales				Stock of Domestic Cars[2]
		Domestic	Japanese[1]	Other Foreign	Total U.S. & Foreign	
1976	8.5	8.6	.9	.6	10.1	1.49
1977	9.3	9.1	1.4	.7	11.1	1.79
1978	9.2	9.3	1.4	.7	11.3	1.81
1979	8.3	8.4	1.8	.6	10.7	1.80
1980	6.3	6.6	1.9	.5	9.0	1.53
1981	6.2	6.2	1.9	.5	8.6	1.54
1981-Q1	6.1	7.3	2.1	.5	10.0	1.16
Q2	7.2	5.6	1.8	.5	7.9	1.53
Q3	6.6	6.9	1.7	.4	9.0	1.53
Q4	5.0	5.1	1.8	.4	7.4	1.54
1982-Q1	4.1	5.9	1.8	.4	8.1	1.21
Q2	5.5	5.5	1.6	.4	7.5	1.26
1982-Jan.	3.6	5.6	1.9	.4	8.0	1.40
Feb.	4.1	6.2	1.9	.4	8.5	1.27
Mar.	4.7	5.9	1.6	.4	7.9	1.21
Apr.	5.1	5.5	1.4	.4	7.3	1.21
May	5.6	6.4	1.7	.4	8.4	1.15
June	5.9	4.8	1.7	.4	6.9	1.26

NOTE: Because of rounding, components may not add to totals.
1. The Japanese Ministry of International Trade and Industry announced that Japan will continue to limit exports to the U.S. to 1.68 million units for the year ending April 1, 1983.
2. End of period.

INDUSTRIAL PRODUCTION INDEXES

			Final Products				
		Total	Consumer Goods	Business Equipment	Defense and Space Equipment	Intermediate Products	Materials
		annual rate					
1980	Q1	.4	-3.2	7.0	5.2	-1.5	.7
	Q2	-19.8	-12.9	-8.7	.8	-28.9	-26.8
	Q3	-5.8	.5	3.6	1.3	4.8	-14.9
	Q4	19.3	11.6	9.4	9.7	15.7	32.4
1981	Q1	8.4	1.4	9.1	2.0	9.9	13.4
	Q2	1.9	6.3	9.4	4.1	-4.1	-1.9
	Q3	1.4	-1.5	3.9	4.3	.3	2.5
	Q4	-16.6	-13.2	-9.4	11.4	-17.2	-24.1
1982	Q1	-11.8	-8.6	-17.7	2.4	-9.5	-14.1
	Q2	-6.6	5.9	-21.9	4.8	-6.4	-10.4
		monthly rate					
1981	June	.1	-.3	.9	-.3	-.8	.4
	July	-.7	.3	.6	.9	.9	.9
	Aug.	-.2	-.7	-.2	.2	.4	-.1
	Sept.	-1.4	-1.2	-1.0	.2	-1.4	-1.8
	Oct.	-1.6	-.9	-1.2	1.5	-2.1	-2.6
	Nov.	-1.8	-1.7	-.9	.8	-1.8	-2.7
	Dec.	-2.0	-1.4	.0	1.6	-1.9	-3.8
1982	Jan.	-1.9	-1.7	-3.8	-1.7	-1.7	-1.3
	Feb.	1.6	1.5	-.3	1.2	2.1	2.4
	Mar.	-.8	-.2	-1.5	.5	-.8	-1.4
	Apr.	-1.0	.5	-2.4	-.1	-1.2	-1.7
	May	-.6	.8	-2.5	.6	-.6	-1.0
	June	-.7	.1	-2.7	-.4	-.7	-.7

NOTE: Quarterly percentage changes are based on averages of seasonally adjusted monthly figures.

CAPACITY UTILIZATION RATES: MANUFACTURERS AND MATERIALS PRODUCERS
(Percent)

	1978-80 High	1980 Low	1982 Q1	1982 Q2	1982 Mar.	1982 Apr.	1982 May	1982 June
Manufacturing industries								
All industries	87.2	74.9	71.6	70.3	71.6	70.7	70.4	69.8
Primary processing	90.1	71.0	69.1	66.3	68.6	67.1	66.3	65.5
Advanced processing	86.2	77.2	73.2	72.4	73.2	72.6	72.6	72.1
Motor vehicles and parts	94.5	51.0	47.4	57.0	51.0	53.4	57.8	59.7
Industrial materials producers								
Total	88.8	73.8	72.0	69.7	71.8	70.4	69.6	69.0
Durable materials	88.4	68.2	66.7	64.2	66.4	64.9	64.1	63.7
Raw steel	100.7	55.3	62.9	48.8	59.8	54.1	48.0	44.4
Nondurable materials	91.6	77.5	75.0	73.3	75.3	74.4	73.2	72.4
Energy materials	88.8	82.7	82.9	80.0	81.8	80.4	80.2	79.5

HOUSING MARKET INDICATORS

Period	New Homes				Existing Homes	
		Sales Price				
	Sold[1] (thousands of units)	Average[2] (dollars)	Change from year earlier (percent)	For sale[3] (thousands of units)	Sold[1] (thousands of units)	Average price (dollars)
1973	633	36,700	9.0	422	2,334	32,800
1974	519	40,300	9.8	350	2,271	35,800
1975	550	44,300	10.1	316	2,450	39,000
1976	647	48,300	8.9	358	3,001	42,200
1977	820	54,500	12.9	408	3,572	47,100
1978	818	62,200	14.1	419	3,863	55,100
1979	709	71,400	14.8	402	3,701	64,000
1980	545	78,600	10.1	342	2,881	72,700
1981	436	85,500	8.8	278	2,350	78,000
1981-Q3	369	85,900	7.4	304	2,253	79,700
Q4	401	87,300	8.7	272	1,923	77,600
1982-Q1	387	88,000	5.6	269	1,933	79,200
1982-Jan.	399	--	--	275	1,860	79,800
Feb.	376	--	--	274	1,950	78,800
Mar.	385	--	--	269	1,990	79,100
Apr.	345	--	--	264	1,910	79,400
May	391	--	--	258	1,910	80,900

1. Monthly and quarterly data are at seasonally adjusted annual rates.
2. Census Bureau estimate for current price of a constant-quality single-family home sold with ten important characteristics the same as the average price home sold in 1977. Monthly data are not available.
3. Seasonally adjusted, end of period.

RESIDENTIAL BUILDING PERMITS AND HOUSING STARTS
(Thousands of units, seasonally adjusted annual rates)

Period	Permits issued 1/			Housing starts		
	Total	Single-family	Multi-family	Total	Single-family	Multi-family
1973	1820	882	937	2045	1132	913
1974	1074	644	431	1338	888	450
1975	929	670	259	1160	892	268
1976	1296	894	402	1537	1162	375
1977	1676	1125	551	1987	1451	536
1978	1800	1183	618	2020	1433	587
1979	1552	981	571	1745	1194	551
1980	1191	710	481	1292	852	440
1981	986	564	421	1084	705	379
1981-Q3	885	501	383	962	644	317
Q4	759	422	337	865	537	328
1982-Q1	815	449	367	920	594	327
Q2	924	486	438	956	601	355
1982-Jan.	803	450	353	885	592	293
Feb.	792	436	356	945	568	377
Mar.	851	460	391	931	621	310
Apr.	879	450	429	882	566	316
May	944	488	456	1075	631	444
Jun.	948	519	429	911	607	304

1. 1973-1977 based on 14,000 permit-issuing places; 1978 to date based on 16,000 permit-issuing places.

NONFARM ESTABLISHMENT EMPLOYMENT
(In thousands; seasonally adjusted)

	Nonfarm Payroll Employment							
	Total	Change from preceding period	Manu-facturing	Change from preceding period	Con-struction	Change from preceding period	Trades and Services	Change from preceding period
1979-Q1	89,006	837	21,052	222	4,362	17	36,901	402
Q2	89,678	672	21,132	80	4,459	97	37,198	297
Q3	90,167	489	21,064	-68	4,508	49	37,391	193
Q4	90,444	277	20,922	-142	4,507	-1	37,729	338
1980-Q1	90,859	415	20,857	-65	4,527	20	38,032	303
Q2	90,336	-523	20,291	-566	4,324	-203	38,046	14
Q3	89,924	-412	19,897	-394	4,267	-57	38,229	183
Q4	90,535	611	20,105	208	4,293	26	38,499	270
1981-Q1	90,945	410	20,172	67	4,274	-19	38,796	297
Q2	91,172	227	20,314	142	4,230	-44	39,065	269
Q3	91,360	188	20,319	5	4,148	-82	39,302	237
Q4	90,954	-406	19,892	-427	4,066	-82	39,408	106
1982-Q1	90,408	-546	19,430	-462	3,958	-108	39,519	111
Q2	90,081	-326	19,085	-345	3,961	3	39,578	59
1982-Jan.	90,460	-182	19,517	-159	3,966	-60	39,461	103
Feb.	90,459	-1	19,454	-63	3,974	8	39,537	76
Mar.	90,304	-155	19,319	-135	3,934	-40	39,559	-22
Apr.	90,083	-221	19,169	-150	3,938	4	39,513	-46
May	90,151	68	19,114	-55	3,994	56	39,606	93
June	90,010	-141	18,971	-143	3,952	-42	39,615	9

HOUSEHOLD EMPLOYMENT AND UNEMPLOYMENT

	Civilian Labor Force	Change from preceding period	Total employment (in thousands)	Change from preceding period	Total Unemployment	Change from preceding period	Unemployment Rate (percent)	
							Total	Men, 25+
1979-Q1	104,327	832	98,206	801	6,121	31	5.9	3.3
Q2	104,316	-11	98,349	143	5,967	-154	5.7	3.2
Q3	105,624	1,308	99,112	763	6,152	185	5.8	3.3
Q4	105,972	348	99,653	541	6,319	167	6.0	3.5
1980-Q1	106,454	482	99,784	131	6,670	351	6.3	3.9
Q2	106,771	317	98,953	-831	7,818	1,148	7.3	5.0
Q3	107,204	433	99,006	53	8,198	380	7.6	5.4
Q4	107,523	319	99,498	492	8,025	-173	7.5	5.0
1981-Q1	108,107	584	100,125	627	7,892	-133	7.4	4.9
Q2	108,835	728	100,784	659	8,050	158	7.4	4.8
Q3	108,667	-168	100,654	-130	8,013	-37	7.4	4.9
Q4	109,156	489	100,043	-611	9,113	1,100	8.3	5.9
1982-Q1	109,130	-26	99,554	-489	9,576	463	8.8	6.4
Q2	110,168	1,038	99,740	186	10,428	852	9.5	7.1
1982-Jan.	108,879	-305	99,581	-32	9,298	-273	8.5	6.3
Feb.	109,165	286	99,590	9	9,575	277	8.8	6.3
Mar.	109,346	181	99,492	-98	9,854	279	9.0	6.6
Apr.	109,648	302	99,340	-152	10,307	453	9.4	6.9
May	110,666	1,018	100,117	777	10,549	242	9.5	6.9
June	110,191	-475	99,764	-353	10,427	-122	9.5	7.5

Recent news on prices suggests that inflation will accelerate in the second half of 1982. Why do you expect inflation to moderate again in 1983?

Inflation was particularly low in the first half of this year because of moderate price increases for food and the weakness in petroleum markets. Incoming evidence suggests a firm up of meat and gasoline prices. Nevertheless, large price increases for food and energy are not likely to be sustained, and the steady decline in inflation outside the food and energy sectors under way since 1980 is expected to continue as labor cost pressures abate and economic activity recovers at a moderate pace.

1. Food price developments

   a. Much of the runup in food prices in recent months has been confined to the livestock sector where significant production cutbacks have reduced supplies below year earlier levels. The resulting increases in meat prices at the farm level began to show up at retail in the second quarter.

   b. A deceleration in labor costs for the food industry has led to a sharp slowdown in the prices of processed foods that account for two-thirds of total food in the CPI; this trend is expected to continue into 1983, holding down the overall rate of food price increase.

2. Energy price developments

   a. Gasoline prices likely rose 6 percent during May and June, but recent surveys suggest that they have since levelled off.

. Leaner petroleum inventories, induced by the high cost of credit and weak outlook for petroleum demand, have reduced the buffer between unexpected surges in buying or selling; this may tend to make prices volatile in the short run.

c. Nevertheless, the longer-run picture for energy prices will be colored by sagging world demand for petroleum superimposed on a background of tenuous discipline among OPEC members; these factors should hold down the relative price of petroleum.

d. Of course, any widening of present Mid-Eastern conflicts could result in sharp oil price increases and a consequent burst of domestic inflation.

3. Further progress in bringing down the overall rate of inflation can be expected as the economy begins to recover at a moderate pace.

a. The low level of utilized resources minimizes the likelihood that underlying inflationary pressures will be rekindled.

b. Furthermore, the significant decline in inflation during the first half of 1982 will continue to bring down wage and benefit increases, as COLAs will be smaller and inflation expectations have been lowered. Over the next two years, unit labor costs are expected to rise at half the 10 percent pace that prevailed from 1979 through 1981.

o Hourly wage rates for production workers rose at a 6-1/4 percent annual rate in the first six months of this year, compared with 8 percent in 1981; this was the smallest increase in almost

a decade. The increase in earnings for white collar workers also has slowed considerably.

- o Fringe benefits also appear to have risen at a slower pace this year with total hourly compensation increasing at about an 8 percent annual rate in the first quarter.
- o Economic recovery should be accompanied by significant improvement in labor productivity, thereby further easing labor cost pressures.

Selected Measures of Economic Slack
(End of Period)

	Official GNP Gap[1]	Alternative GNP Gap[2]	Capacity Utilization Rate[3]	Unemployment Rate
1975	5.8		76.1	8.3
1976	4.8		80.0	7.8
1977	2.6		82.6	6.7
1978	.8		86.4	5.9
1979	2.0		84.4	6.0
1980	5.1	4.7	79.1	7.4
1981	7.0	6.2	74.8	8.3
1982p	9.2	8.0	71.7	9.5
1983p	9.2	7.6	73.7	9.1

1. Percent of real GNP.
2. Assuming potential output grows at an annual rate of 2-1/2 percent from 1980 on, rather than 3 percent used in the CEA's estimate.
3. Manufacturing sector.
p. Projected (based on June Greenbook GNP forecast).

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

Period	Actual Inflation[1]	University of Michigan (SRC)[2]	Livingston[3]
1977-Q4	5.8	6.5	6.3
1978-Q1	6.4	7.4	
Q2	9.9	7.8	6.7
Q3	7.6	8.3	
Q4	9.1	8.1	7.1
1979-Q1	10.2	9.1	
Q2	12.5	11.1	8.5
Q3	14.0	10.3	
Q4	14.3	10.3	9.6
1980-Q1	16.5	11.9	
Q2	13.1	9.1	10.1
Q3	7.7	8.5	
Q4	12.9	9.3	10.3
1981-Q1	10.8	7.7	
Q2	7.5	7.4	8.6
Q3	12.0	7.0	
Q4	7.7	6.9	7.2
1982-Q1	3.2	5.7	
1982-January	3.4	5.6	
February	3.0	5.5	
March	-3.3	6.0	
April	3.0	5.4	
May	12.0	5.0	
June		5.9	5.7

1. CPI; percent change from preceding period, compound annual rate.
2. Average increase for responses to the question: "By about what percent do you expect prices (CPI) to go up, on the average, during the next 12 months?"
3. Average 12-month ahead forecast of the CPI by "informed" business economists. Constructed by the Federal Reserve Bank of Philadelphia from disaggregated Livingston data; data are for the last month of the period indicated.

July 16, 1982

Average Hourly Earnings Index*

Production workers private nonfarm industries
Per cent changes; based on seasonally adjusted indexes

Period[1]	Total private nonfarm	Manufacturing	Contract construction	Transportation and public utilities	Total trade	Services
Changes over year						
1973	6.3	6.4	5.0	7.4	6.3	6.2
1974	9.1	10.4	8.0	8.8	8.8	8.3
1975	7.4	8.7	5.0	9.0	6.5	7.0
1976	7.3	7.4	6.8	8.1	7.1	7.6
1977	7.5	8.3	4.1	9.2	7.4	7.1
1978	8.4	8.5	7.6	7.3	9.6	7.6
1979	8.0	8.7	6.7	8.9	7.5	7.6
1980	9.6	10.9	7.7	9.3	8.8	9.5
1981	8.4	8.8	8.1	8.5	7.1	9.1
June 1981-June 1982	6.9	7.8	6.9	6.8	5.5	7.2
Half-yearly changes at compound annual rates						
1979: 1st half	7.6	9.0	7.4	6.4	7.5	6.1
2nd half	8.4	8.3	6.1	11.6	7.5	9.2
1980: 1st half	9.5	10.9	7.4	8.3	8.8	9.4
2nd half	9.7	10.9	8.1	10.4	8.7	9.6
1981: 1st half	8.9	9.4	7.4	10.0	8.1	9.0
2nd half	7.9	8.2	8.9	7.0	6.1	9.3
1982: 1st half	6.3	7.7	5.7	6.6	5.1	5.9
Quarterly changes at compound annual rates						
1981-Q1	9.3	9.4	9.2	9.1	9.1	9.1
Q2	8.5	9.4	5.7	11.0	7.1	8.9
Q3	8.5	8.7	8.9	6.4	8.0	9.3
Q4	7.3	7.7	8.8	7.7	4.3	9.2
1982-Q1	6.5	8.7	9.0	7.4	3.8	5.1
Q2	6.2	6.6	2.4	5.9	6.4	6.7
Monthly changes						
1981: October	4.7	5.5	11.1	6.4	-4.5	9.6
November	9.0	8.1	8.5	10.0	6.7	11.3
December	3.9	4.1	8.1	6.5	4.0	3.5
1982: January	11.6	16.3	29.3	10.1	3.4	6.7
February	.9	2.0	-17.5	4.0	3.0	2.7
March	3.5	6.4	1.6	2.6	2.7	1.3
April	7.6	7.2	5.8	4.8	7.6	10.5
May	10.6	8.2	8.3	9.9	12.1	10.6
June	2.3	5.0	1.6	8.0	.2	.7

NOTES: *Excludes effects of fluctuations in overtime premiums in manufacturing and of shifts of workers between industries.

1 For periods of longer than one month the changes are based on quarterly averages of final quarter of preceding period to final quarter of period indicated.

FR 712-N Rev. 4/81

LABOR PRODUCTIVITY AND COSTS, NONFARM BUSINESS SECTOR
(Percent change at annual rates; based on seasonally adjusted data)

	Compensation per hour		Output per hour		Unit labor costs	
	From year earlier	From previous period	From year earlier	From previous period	From year earlier	From previous period
1979-QI	9.2	10.9	-.1	-.9	9.3	11.9
QII	9.8	10.4	-.8	-1.6	10.7	12.1
QIII	9.8	8.6	-1.0	-1.1	11.0	9.7
QIV	9.9	9.7	-.9	-.2	10.9	9.9
1980-QI	9.7	10.3	-.6	.3	10.4	9.9
QII	9.9	11.3	-1.0	-2.9	11.0	14.6
QIII	10.1	9.0	.2	3.6	9.9	5.3
QIV	10.1	9.8	.2	-.2	9.9	10.1
1981-QI	10.5	11.7	1.2	4.4	9.2	7.0
QII	10.0	9.6	2.3	1.4	7.6	8.1
QIII	10.2	9.5	.9	-1.7	9.2	11.5
QIV	9.3	6.3	-.8	-6.9	10.1	14.1
1982-QI	8.3	7.9	-1.7	.5	10.2	7.3
Peak-to-peak changes:[1]						
1948-Q4 - 1953-Q2		5.7		2.7		2.9
1953-Q2 - 1957-Q3		4.6		1.7		2.8
1957-Q3 - 1960-Q2		4.2		2.3		1.8
1960-Q2 - 1969-Q4		4.9		2.5		2.4
1969-Q4 - 1973-Q4		7.0		2.5		4.4
1973-Q4 - 1980-Q1		9.0		.7		8.3

1. These time periods represent the intervals between NBER-designated business cycle peaks.

CONSUMER PRICES
(Percent change; based on seasonally adjusted indexes)

	All Items	Food	Energy Items[2]	All Items Less Food and Energy	Home Purchase[2]	Contract Mortgage Interest Cost[2,3]	All Items Less Food, Energy, and Homeownership[4]	Experimental CPI
Relative Importance[1]	100.0	16.6	11.1	72.3	9.6	10.8	49.8	100.0
	- - - - - - - - - - - - - - - - - - Annual changes - - - - - - - - - - - - - - - - - -							
Dec. 1975-Dec. 1976	4.8	.6	6.9	6.1	4.3	-.7	6.8	5.1
Dec. 1976-Dec. 1977	6.8	8.0	7.2	6.4	8.4	10.8	5.5	6.3
Dec. 1977-Dec. 1978	9.0	11.8	8.0	8.5	11.2	22.0	6.9	7.9
Dec. 1978-Dec. 1979	13.3	10.2	37.4	11.3	15.8	34.7	7.5	10.8
Dec. 1979-Dec. 1980	12.4	10.2	18.1	12.1	11.4	27.6	9.9	10.8
Dec. 1980-Dec. 1981	8.9	4.3	11.9	9.6	1.2	20.0	9.4	8.5
May 1980-May 1981	9.8	8.8	13.2	9.5	5.3	16.2	9.2	9.6
May 1981-May 1982	6.7	4.8	-2.2	8.7	6.2	12.0	8.2	6.1
	- - - - - - - - - Changes over quarter at compound annual rates - - - - - - - - -							
1981-Q1	9.6	5.3	49.1	6.4	-8.8	11.6	8.2	10.7
Q2	8.1	2.2	4.7	11.6	8.7	30.7	9.6	5.9
Q3	12.8	7.7	3.0	15.0	12.4	38.3	11.2	10.1
Q4	5.4	1.7	-2.4	5.6	-5.7	2.8	8.5	7.5
1982-Q1	1.0	3.9	-8.0	3.0	-1.9	-6.5	5.4	2.7
	- - - - - - - - - - - - - - - Monthly changes, not annualized - - - - - - - - - - - -							
1982-Jan.	.3	.7	.4	.3	-.4	-.2	.5	.4
Feb.	.2	.6	-.8	.4	.4	.1	.4	.1
Mar.	-.3	-.4	-1.7	.0	-.4	-1.6	.5	.2
Apr.	.2	.3	-2.6	.8	1.2	1.8	.6	-.2
May	1.0	.8	1.6	.9	2.6	.2	.4	.6

1. December 1981 weights, in percent.
2. Not seasonally adjusted.
3. Represents the stream of newly contracted mortgage interest payments; calculated as the product of the changes in the mortgage rate and house price indexes.
4. Reconstructed series, includes the home maintenance and repair component of homeownership costs.
5. BLS experimental index for "All Items"--CPI-U-X1--which uses a rent substitution measure for homeownership costs.

Consumer Prices - I

Percent changes
Based on seasonally adjusted indexes

June 22, 1982

Period	All items	Home purchase [2]	Contracted mortgage interest cost [2,3]	Food	Energy items [2]	All items less food, energy, and homeownership [4]			Experimental CPI [5]
						total	commodities	services	
	1	2	3	4	5	6	7	8	9
Relative importance [1]	100.0	9.6	10.8	16.6	11.1	49.8	23.2	26.6	100.0
	Changes over year								
May 1980- May 1981	9.8	5.3	16.2	8.8	13.2	9.2	9.0	9.4	9.6
May 1981- May 1982	6.7	6.2	12.0	4.8	-2.2	8.2	6.8	9.4	6.1
	Changes over half year at compound annual rate								
1980: 1st half	14.5	10.9	53.3	6.8	37.5	9.7	7.9	11.5	11.0
2nd half	10.3	11.9	6.3	13.5	1.4	10.0	10.7	9.1	10.7
1981: 1st half	8.8	-.4	20.7	3.8	24.9	8.9	7.7	9.9	8.3
2nd half	9.1	2.9	19.3	4.7	.3	9.9	8.1	11.2	8.8
	Changes over quarter at compound annual rate								
1981: I	9.6	-8.8	11.6	5.3	49.1	8.2	6.6	9.9	10.7
II	8.1	8.7	30.7	2.2	4.7	9.6	8.8	10.0	5.9
III	12.8	12.4	38.3	7.7	3.0	11.2	9.7	12.9	10.1
IV	5.4	-5.7	2.8	1.7	-2.4	8.5	6.4	9.6	7.5
1982: I	1.0	-1.9	-6.5	3.9	-8.0	5.4	5.0	6.3	2.7
	Monthly changes not at annual rate								
1981: July	1.1	1.8	3.2	.7	.4	1.0	.7	1.3	.8
August	.8	.4	1.8	.5	.1	.8	.9	.9	.9
September	1.1	.7	3.2	.7	.2	.9	.7	.9	.7
October	.4	-.7	-.1	.3	-.5	.8	.6	.9	.6
November	.5	-.8	.8	.1	-.2	.6	.4	.8	.6
December	.4	.1	.0	.1	.1	.7	.5	.6	.5
1982: January	.3	-.4	-.2	.7	.4	.5	.4	.7	.4
February	.2	.4	.1	.6	-.8	.4	.2	.5	.1
March	-.3	-.4	-1.6	-.4	-1.7	.5	.6	.3	.2
April	.2	1.2	1.8	.3	-2.6	.6	.3	.7	-.2
May	1.0	2.6	.2	.8	1.6	.4	.4	.6	.6

1 December 1981 weights, in percent.
2 Not seasonally adjusted.
3 Represents the stream of newly contracted mortgage interest payments; calculated as the product of the changes in the mortgage rate and house price indexes.
4 Reconstructed series, includes maintenance and repairs.
5 BLS experimental measure for "All items" with the CPI rent index substituted for home ownership.

FR 712p (Rev. 11/81)

PRODUCER PRICE INDEXES
(Percent change; based on seasonally adjusted indexes)

	Total	Consumer Foods	Energy	Finished Goods Less Food & Energy	Intermediate Materials[1]	Crude Materials Food	Crude Materials Nonfood
Relative Importance[2]	100.0	21.9	12.7	65.3	94.7	50.6	49.4
				Annual changes			
Dec. 1975-Dec. 1976	3.7	-2.5	11.5	5.6	6.3	-3.4	10.4
Dec. 1976-Dec. 1977	6.9	6.9	12.1	6.3	6.4	1.4	6.2
Dec. 1977-Dec. 1978	9.2	11.7	8.5	8.3	8.3	18.3	15.4
Dec. 1978-Dec. 1979	12.8	7.4	58.0	9.4	16.7	10.6	26.1
Dec. 1979-Dec. 1980	11.8	7.5	27.8	10.7	12.4	8.6	19.1
Dec. 1980-Dec. 1981	7.1	1.4	14.3	7.6	7.4	-14.0	10.4
June 1980-June 1981	10.5	8.0	20.0	9.1	10.6	8.8	26.7
June 1981-June 1982	3.5	3.8	-7.9	5.7	1.2	-1.7	-4.0
				Changes over quarter at compound annual rates			
1981-Q1	12.8	5.1	56.6	8.8	13.8	-15.6	34.3
Q2	7.1	3.5	3.5	9.0	8.0	6.4	16.1
Q3	3.4	1.6	-3.6	5.6	5.2	-18.2	1.1
Q4	5.5	-3.9	9.0	8.1	2.7	-25.5	-6.0
1982-Q1	.3	6.0	-18.0	2.5	-1.4	23.3	-18.1
Q2	4.7	11.7	-16.2	6.5	-1.8	24.3	8.7
				Monthly changes, not annualized			
1982-January	.5	1.1	-.9	.7	.2	4.4	-.9
February	-.3	.5	-1.7	-.3	-.3	.7	-2.0
March	-.1	-.2	-2.3	.3	-.3	.2	-2.0
April	.1	1.6	-5.2	.5	-.8	3.5	-.2
May	0	.7	-3.1	.3	0	2.7	1.7
June	1.0	.5	4.1	.7	.3	-.6	.6

1. Excludes intermediate materials for food manufacturing and manufactured animal feeds.
2. December 1981 weights on a stage of processing basis, as a percentage of respective totals for finished goods, intermediate materials, and crude materials.

July 16, 1982

PRODUCER PRICE INDEXES

PERCENT CHANGE; BASED ON SEASONALLY ADJUSTED INDEXES

Period	Stage of Processing Groupings								
	Finished Goods						7	Crude Materials	
	1 Total	2 Consumer Foods	3 Energy	Excluding Food and Energy			Intermediate Materials 1/	8 Food	9 Nonfood
				4 Total	5 Consumer	6 Capital Equipment			
Relative importance 2/	100.0	21.9	12.7	65.4	44.6	20.8	94.7	50.7	49.3
CHANGES OVER YEAR									
June 80–June 81	10.5	8.9	20.0	9.1	8.2	10.9	10.6	8.8	26.7
June 81–June 82	3.5	3.8	-7.9	5.7	5.6	6.0	1.2	-1.7	-4.0
CHANGES OVER HALF YEAR AT COMPOUND ANNUAL RATE									
1980: 1st half	12.9	.8	45.4	12.5	12.8	11.9	14.4	-6.4	10.0
2nd half	10.9	14.2	13.0	9.1	8.0	11.0	10.4	25.3	28.9
1981: 1st half	9.9	4.3	27.3	8.9	8.1	10.8	10.8	-5.2	24.9
2nd half	4.5	-1.2	2.5	6.8	6.4	7.7	4.0	-22.0	-2.5
1982: 1st half	2.5	8.8	-17.1	4.5	4.6	4.3	-1.6	23.8	-5.7
CHANGES OVER QUARTER AT COMPOUND ANNUAL RATE									
1981:Q1	12.8	5.1	56.6	8.8	7.4	11.6	13.8	-15.6	34.3
Q2	7.1	3.5	3.5	9.0	8.8	10.0	8.0	6.4	16.1
Q3	3.4	1.6	-3.6	5.6	5.4	5.7	5.2	-18.2	1.1
Q4	5.5	-3.9	9.0	8.1	7.4	9.7	2.7	-25.5	-6.0
1982: Q1	.3	6.0	-18.0	2.5	2.7	2.1	-1.4	23.3	-18.1
Q2	4.7	11.7	-16.2	6.5	6.6	6.5	-1.8	24.3	8.7
MONTHLY CHANGES NOT AT ANNUAL RATES									
1981: November	.5	-.7	1.4	.7	.7	.7	.4	-2.2	-.6
December	.3	-.1	.9	.2	.1	.6	.2	-2.8	.1
1982: January	.5	1.1	-.9	.7	.8	.5	.2	4.4	-.9
February	-.2	.5	-1.6	-.1	.0	-.4	-.3	.7	-2.0
March	-.3	-.2	-2.4	.1	-.1	.4	-.2	.2	-2.0
April	.1	1.6	-5.2	.5	.6	.4	-.8	3.5	-.2
May	.0	.7	-3.1	.3	.3	.4	.0	2.7	1.7
June	1.0	.5	4.1	.7	.7	.8	.3	-.6	.6

NOTES: 1/ Excludes intermediate materials for food manufacturing and manufactured animal feeds.

2/ December 1981 weights on a stage of processing basis, as a percentage of respective totals for finished goods, intermediate materials, and crude materials.

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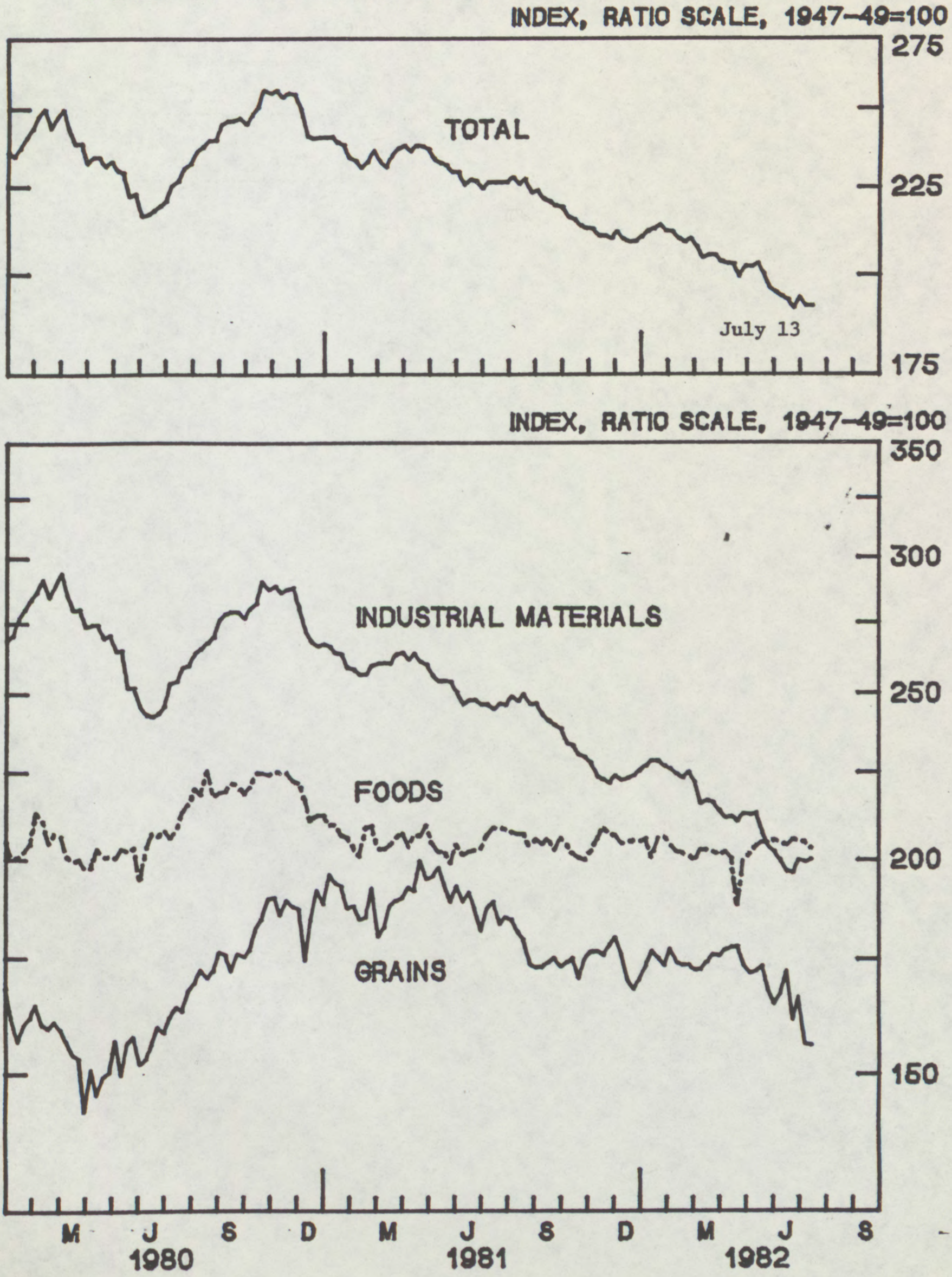
CHART 1

JOURNAL OF COMMERCE
INDEX OF SENSITIVE SPOT COMMODITY PRICES[1]



1. TUESDAY DATA

PRIVATE ECONOMIC FORECASTS

	Chase	Wharton	DRI	Merrill-Lynch	Average
Real GNP	-------Percent change; seasonally adjusted, annual rate-------				
1982-Q1	-3.7	-3.7	-3.7	-3.7	-3.7
Q2	0.6	1.7	.3	1.3	1.0
Q3	4.0	4.6	2.2	4.1	3.7
Q4	4.5	3.1	3.3	5.3	4.1
81-Q4 to 82-Q4	1.3	1.4	.5	1.7	1.2
82-Q4 to 83-Q4	3.7	3.8	3.5	3.4	3.6
GNP Deflator					
1982-Q1	3.8	3.8	3.8	3.8	3.8
Q2	4.6	5.0	5.5	5.9	5.3
Q3	5.6	5.8	6.2	5.1	5.7
Q4	5.8	7.0	6.1	4.9	6.0
81-Q4 to 82-Q4	4.9	5.4	5.4	4.9	5.2
82-Q4 to 83-Q4	5.9	6.1	6.5	4.9	5.9
Unemployment Rate	----------Percent----------				
1982-Q4	9.3	9.3	9.3	9.3	9.3
1983-Q4	8.5	8.6	8.5	8.9	8.6
Date of Forecast	June 24	June 24	June 26	July 16	

GOVERNMENT ECONOMIC FORECASTS

	FR Staff June 1982	FOMC July Humphrey-Hawkins Report	Congress[1]	Administration Mid-Session Review
	----- Fourth quarter to fourth quarter growth rate (percent) -----			
Money (M1)				
1982	5.0	2-1/2 - 5-1/2	5.5	2-1/2 - 5-1/2
1983	4.5	2-1/2 - 5-1/2	n.a.	n.a.
Nominal GNP				
1982	5.8	5-1/2 - 7-1/2	8.6	6.9
1983	7.5	7 - 9-1/2	11.6	11.7
Real GNP				
1982	0.6	1/2 - 1-1/2	1.6	1.7
1983	3.0	2-1/2 - 4	4.4	4.4
GNP deflator				
1982	5.3	4-3/4 - 6	6.9	5.1
1983	4.3	4 - 5-3/4	6.9	7.0
	---------- Level, fourth quarter ----------			
Unemployment Rate (percent)				
1982	9.5	9 - 9-3/4	9.1	9.1
1983	9.1	8-1/2 - 9-1/2	8.0	8.0

1. First Concurrent Resolution on the Budget.
n.a.--Not available.

FINANCIAL DEVELOPMENTS

MONETARY AGGREGATES AND BANK CREDIT
(Percent annual rates of change)

	Monetary Aggregates			Bank Credit
	M1	M2	M3	
Fourth quarter to fourth quarter				
1978	8.3	8.2	11.3	13.3
1979	7.4	8.4	9.8	12.6
1980	7.3	9.2	10.0	8.0
1981	5.0 (2.3)[1]	9.5	11.4	8.8[2]
Annual average to annual average				
1978	8.2	8.8	11.7	12.4
1979	7.7	8.5	10.3	13.5
1980	6.3	8.3	9.3	8.5
1981	7.0 (4.7)[1]	9.8	11.6	9.6[2]
Recent Periods				
1981--Q4	5.7	8.9	9.3	5.8[2]
1982--Q1	10.4	9.8	8.7	9.7[2]
Q2	3.1	9.4	10.6	8.9[2]
1981 Q4-June	5.6	9.4	9.7	8.0[4]
1981 Q4-1982 Q2	6.8	9.7	9.8	8.3[4]
Longer-run ranges				
1979 Q4-1980 Q4	4 to 6½[3]	6 to 9	6½ to 9½	6 to 9
1980 Q4-1981 Q4	3½ to 6[1]	6 to 9	6½ to 9½	6 to 9
1981 Q4-1982 Q4	2½ to 5½	6 to 9	6½ to 9½	6 to 9[5]

1. Adjusted for the effects of shifts out of savings deposits into other checkable deposits.
2. Adjusted for shifts of assets from domestic offices to International Banking Facilities (IBFs).
3. When this range was set, shifts into other checkable deposits in 1980 were expected to have only a limited effect on M1 growth. As the year progressed, however, banks offered other checkable deposits more actively, and more funds than expected were directed to these accounts. Such shifts are estimated to have increased M1 growth over 1980 by at least 1/2 percentage point more than had been anticipated.
4. Calculated from December-January base. Growth from the base period adjusted for shifts of assets from domestic offices to IBFs since January is 9.0 percent through June and 9.5 percent through 1982 Q2.
5. Range for bank credit is annualized growth from the December 1981-January 1982 average level to fourth quarter 1982.

Confidential (FR)
Class II—FOMC

Monetary Aggregates

Actual and Current Projections

Billions of dollars, seasonally adjusted unless otherwise noted

JULY 19, 1982

Date	Money stock measures			Major components of money stock measures										
	M1	M2	M3	currency	nonbank travelers checks	demand deposits	other checkable deposits	overnight RPs and Eurodollars NSA	savings deposits	small denomination time deposits[1]	Money market mutual funds, NSA: general purpose, and broker/dealer	Money market mutual funds, NSA: institutions only	large denomination time deposits[2]	longer-term RPs NSA
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
MONTHLY LEVELS-$BIL														
1982--MAR.	448.3	1865.2	2235.8	125.1	4.4	233.0	85.7	43.0	350.7	870.0	159.2	31.5	312.6	31.5
APR.	452.4	1880.7	2258.1	126.3	4.4	233.0	88.6	40.4	350.5	881.7	161.9	31.5	317.1	34.2
MAY	451.5	1897.5	2278.7	127.4	4.5	232.6	87.0	42.8	350.9	894.1	164.3	32.8	321.4	32.3
JUNE	450.9	1906.9	2294.7	128.4	4.5	230.7	87.3	42.8	349.8	900.8	168.6	33.7	328.4	31.0
% ANNUAL GROWTH														
QUARTERLY														
1981--3RD QTR.	2.6	8.6	10.8	4.7	9.5	-5.0	27.0	-30.8	-25.8	17.0	107.7	129.4	23.4	-51.5
4TH QTR.	9.0	10.0	9.4	6.6	0.0	2.9	32.6	-15.2	0.6	7.1	63.1	106.8	-2.6	18.9
1982--1ST QTR.	6.7	9.3	8.7	6.5	9.3	-5.8	45.2	51.4	8.3	7.2	21.2	-26.1	16.4	-44.1
2ND QTR.	2.3	8.9	10.5	10.6	9.1	-3.9	7.5	-1.9	-1.0	14.2	23.6	27.9	20.2	-6.3
QUARTERLY-AV														
1981--3RD QTR.	0.3	8.3	11.2	4.7	9.5	-7.5	21.2	14.9	-22.8	16.7	91.5	69.0	30.6	-30.8
4TH QTR.	5.7	8.9	9.3	4.3	0.0	-0.2	27.6	-44.1	-11.7	12.4	74.2	132.8	3.5	0.0
1982--1ST QTR.	10.4	9.8	8.7	7.9	0.0	-0.5	48.9	63.6	9.4	3.2	33.8	-2.5	8.9	-29.9
2ND QTR.	3.1	9.4	10.6	9.3	18.6	-5.9	19.6	-9.3	1.1	14.7	20.9	15.2	19.0	3.7
MONTHLY														
1982--MAR.	2.7	11.2	11.3	4.8	27.9	-7.7	27.2	2.8	7.2	14.8	24.6	39.3	17.9	-36.9
APR.	11.0	10.0	12.0	11.5	0.0	0.0	40.6	-72.6	-0.7	16.1	20.4	0.0	17.3	102.9
MAY	-2.4	10.7	10.9	10.5	27.3	-2.1	-21.7	71.3	1.4	16.9	17.8	49.5	16.3	-66.7
JUNE	-1.6	5.9	8.4	9.4	0.0	-9.8	4.1	0.0	-3.8	9.0	31.4	32.9	26.1	-48.3
WEEKLY LEVELS-$BIL														
1982--JUNE 2	453.3			128.3		232.8	87.7	42.1			166.8	34.2		
9	455.0			128.3		232.9	89.3	41.2			168.7	34.0		
16	452.1			128.4		231.6	87.6	42.3			168.9	33.5		
23	449.7			128.4		229.8	87.0	43.3			169.0	33.9		
30	445.4			128.5		227.3	85.2	44.5			168.4	33.3		
JULY 7	451.3			128.9		232.4	85.6	41.5			169.0	33.7		

1/ INCLUDES RETAIL REPURCHASE AGREEMENTS.
2/ LARGE DENOMINATION TIME DEPOSITS AT ALL INSTITUTIONS LESS LARGE DENOMINATION TIME DEPOSITS HELD BY MONEY MARKET MUTUAL FUNDS, THRIFT INSTITUTIONS, DOMESTIC AND FOREIGN BANKS AND FOREIGN OFFICIAL INSTITUTIONS.

ADOPTED AND ACTUAL LONGER-RUN GROWTH RATE RANGES IN MONETARY AGGREGATES
(Percent; actual rates shown in parentheses)

	M1	M2	M3	Bank Credit[1]	
March 1975-March 1976	5 - 7½(5.3)	8½ -10½(9.7)	10 - 12 (12.3)	6½- 9½(3.2)	
QII 1975 - QII 1976	5 - 7½(5.4)	8½ -10½(9.6)	10 - 12 (12.0)	6½- 9½(3.1)	
QIII 1975 - QIII 1976	5 - 7½(4.6)	7½ -10½(9.3)	9 - 12 (11.5)	6 - 9 (3.7)	
QIV 1975 - QIV 1976	4½ - 7½(5.8)	7½ -10½(10.9)	9 - 12 (12.7)	6 - 9 (4.3)	
QI 1976 - QI 1977	4½ - 7 (6.5)	7½ -10 (11.0)	9 - 12 (12.8)	6 - 9 (5.0)	
QII 1976 - QII 1977	4½ - 7 (6.8)	7½ - 9½(10.8)	9 - 11 (12.5)	5 - 8 (5.8)	
QIII 1976 - QIII 1977	4½ - 6½(8.0)	7½ -10 (11.1)	9 - 11½(12.7)	7 -10 (6.9)	
QIV 1976 - QIV 1977	4½ - 6½(7.9)	7 -10 (9.8)	8½- 11½(11.7)	7 -10 (11.1)	
QI 1977 - QI 1978	4½ - 6½(7.7)	7 - 9½(8.8)	8½- 11 (10.5)	7 -10 (11.4)	
QII 1977 - QII 1978	4 - 6½(8.2)	7 - 9½(8.6)	8½- 11 (10.0)	7 -10 (12.1)	
QIII 1977 - QIII 1978	4 - 6½(8.0)	6½ - 9 (8.5)	8 - 10½(9.5)	7 -10 (12.7)	
QIV 1977 - QIV 1978	4 - 6½(7.2)	6½ - 9 (8.7)	7½- 10 (9.5)	7 -10 (13.5)	
QI 1978 - QI 1979	4 - 6½(5.1)	6½ - 9 (7.6)	7½- 10 (8.7)	7½-10½(14.1)	
QII 1978 - QII 1979	4 - 6½(4.8)	6½ - 9 (7.7)	7½- 10 (8.6)	8½-11½(13.6)	
QIII 1978 - QIII 1979	2 - 6 (5.3)	6½ - 9 (8.2)	7½- 10 (8.7)	8½-11½(13.8)	
QIV 1978 - QIV 1979[2]	3 - 6 (5.5)	5 - 8 (8.3)	6 - 9 (8.1)	7½-10½(12.3)	
QIV 1979 - QIV 1980[3]	1½ - 4½	5 - 8	6 - 9	7½-10½	
	M1-A	M1-B	M2	M3	Bank Credit
QIV 1979 - QIV 1980[4]	3½ - 6 (5.0)	4 - 6½(7.3)	6 - 9 (9.2)	6½- 9½(10.0)	6 - 9 (8.0)
QIV 1980 - QIV 1981[5]	3 - 5½(1.3)	3½ - 6 (2.3)	6 - 9 (9.5)	6½- 9½(11.4)	6 - 9 (8.8)[7]
QIV 1981 - QIV 1982[6]		2½ - 5½	6 - 9	6½- 9½	6 - 9[8]

1. Prior to 1977 the bank credit proxy was used as the target measure for bank credit.
2. At the February 1979 meeting the FOMC adopted a QIV: 1978 - QIV: 1979 longer-run range for M1 of 1-1/2 to 4-1/2 percent. This range anticipated that shifting to ATS and NOW accounts in New York State would slow M1 growth by 3 percentage points. At the October meeting it was noted that ATS/NOW shifts would reduce M1 by no more than 1-1/2 percentage points. Thus, the longer-run range for M1 was modified to 3-6 percent.
3. Adopted on a preliminary basis at the July 1979 meeting. In February 1980, the monetary aggregates on which these targets were based were redefined and new target ranges adopted.
4. When these ranges were set, shifts into other checkable deposits in 1980 were expected to have only a limited effect on growth of M1-A and M1-B. As the year progressed, however, banks offered other checkable deposits more actively, and more funds than expected were directed to these accounts. Such shifts are estimated to have decreased M1-A growth and increased M1-B growth each by at least 1/2 percentage point more than had been anticipated.
5. Adjusted for the effects of shifts out of demand deposits and savings deposits into other checkable deposits. At the February FOMC meeting, the target ranges for observed M1-A and M1-B in 1981 on an unadjusted basis, expected to be consistent with the adjusted ranges, were -4-1/2 to-2 and 6 to 8-1/2 percent, respectively.
6. As of January 1982, M1-B was relabeled M1.
7. Adjusted for shifts of assets from domestic banking offices to International Banking Facilities.
8. Range for bank credit is annualized growth from the December 1981-January 1982 average level through the fourth quarter of 1982.

Bank Reserves
Seasonally Adjusted

JULY 19, 1982

Period	Total reserves	Nonborrowed reserves	Nonborrowed reserves plus extended credit[1]	Monetary base	Total required	Excess reserves	Adjustment borrowings[2]
	1	2	3	4	5	6	7
MONTHLY LEVELS-$MILLIONS							
1982--MAR.	41,090	39,534	39,842	168,460	40,728	361	1,248
APR.	41,181	39,613	39,858	169,751	40,908	273	1,323
MAY	41,329	40,212	40,388	171,027	40,971	359	941
JUNE	41,457	40,253	40,357	172,135	41,132	326	1,101
PERCENT ANNUAL GROWTH							
QUARTERLY							
1981--3RD QTR.	7.0	13.5	16.7	4.9	6.3		
4TH QTR.	2.1	10.7	9.0	5.1	3.1		
1982--1ST QTR.	5.6	-3.6	-2.0	6.4	5.2		
2ND QTR.	3.6	7.3	5.2	8.7	4.0		
QUARTERLY-AV							
1981--3RD QTR.	4.0	7.9	9.2	4.3	3.1		
4TH QTR.	3.2	10.5	11.7	3.9	3.5		
1982--1ST QTR.	8.3	0.4	0.3	8.0	7.9		
2ND QTR.	2.2	5.6	4.8	7.3	2.6		
MONTHLY							
1982--MAR.	4.8	12.2	14.4	4.1	3.1		
APR.	2.7	2.4	0.5	9.2	5.3		
MAY	4.3	18.1	16.0	9.0	1.8		
JUNE	3.7	1.2	-0.9	7.8	4.7		
WEEKLY LEVELS-$MILLIONS							
1982--JUNE 2	41,595	40,547	40,679	172,306	40,923	672	916
9	41,000	39,696	39,811	171,521	40,851	149	1,189
16	41,476	40,547	40,651	172,286	41,244	232	825
23	41,529	40,515	40,611	172,136	41,303	226	918
30	41,785	40,169	40,262	172,582	41,188	597	1,523
JULY 7	41,518	40,446	40,533	172,574	40,978	540	985
14	40,770	40,212	40,282	171,607	40,605	165	488

NOTE: RESERVE SERIES HAVE BEEN ADJUSTED TO REMOVE DISCONTINUITIES ASSOCIATED WITH CHANGES IN RESERVE REQUIREMENT RATIOS.

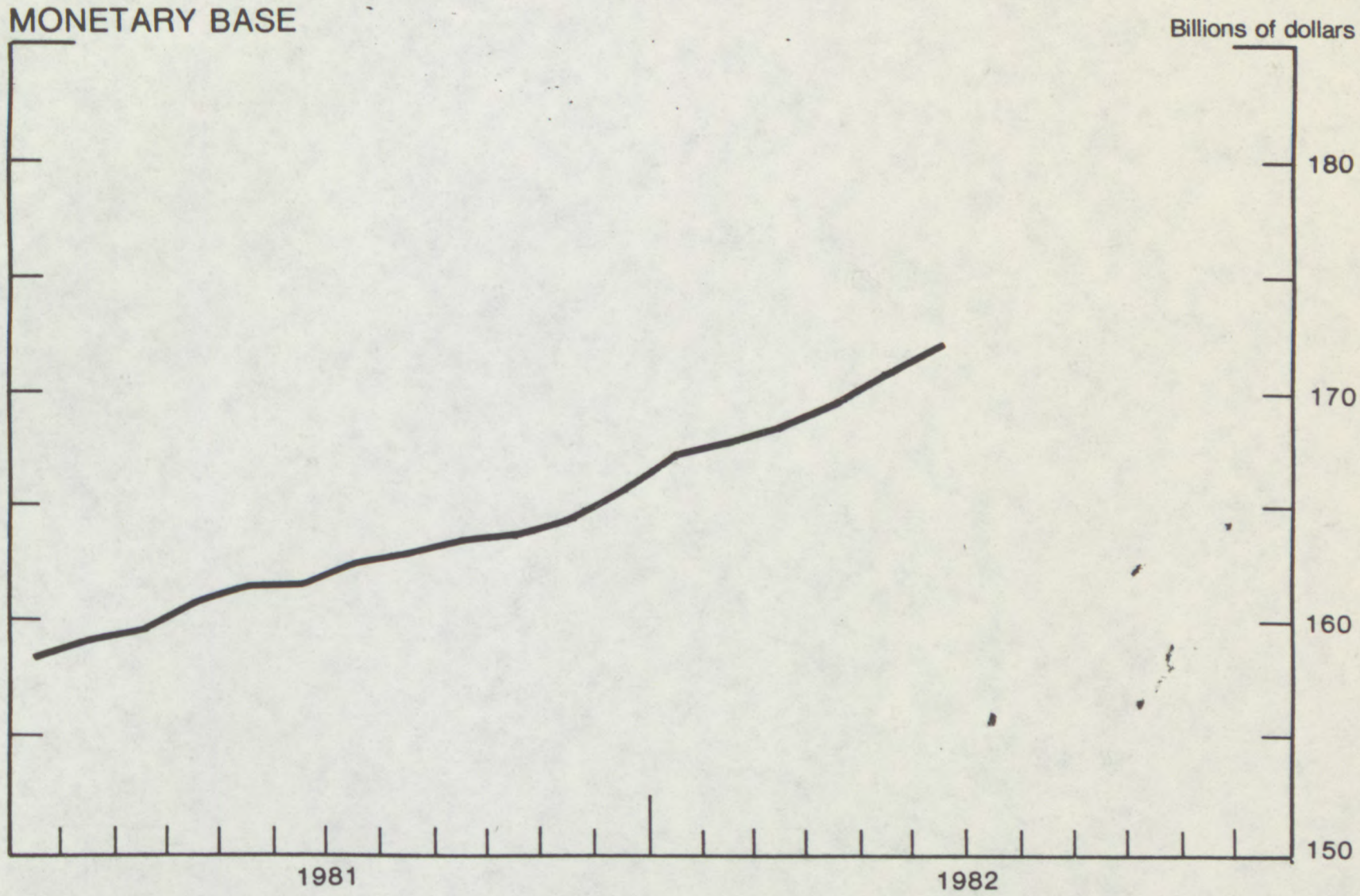
1/ EXTENDED CREDIT CONSISTS OF BORROWING AT THE DISCOUNT WINDOW UNDER THE TERMS AND CONDITIONS ESTABLISHED FOR THE EXTENDED CREDIT PROGRAM TO HELP DEPOSITORY INSTITUTIONS DEAL WITH SUSTAINED LIQUIDITY PRESSURES. BECAUSE THERE IS NOT THE SAME NEED TO REPAY SUCH BORROWING PROMPTLY AS THERE IS WITH TRADITIONAL SHORT-TERM ADJUSTMENT CREDIT, THE MONEY MARKET IMPACT OF EXTENDED CREDIT IS SIMILAR TO THAT OF NONBORROWED RESERVES.

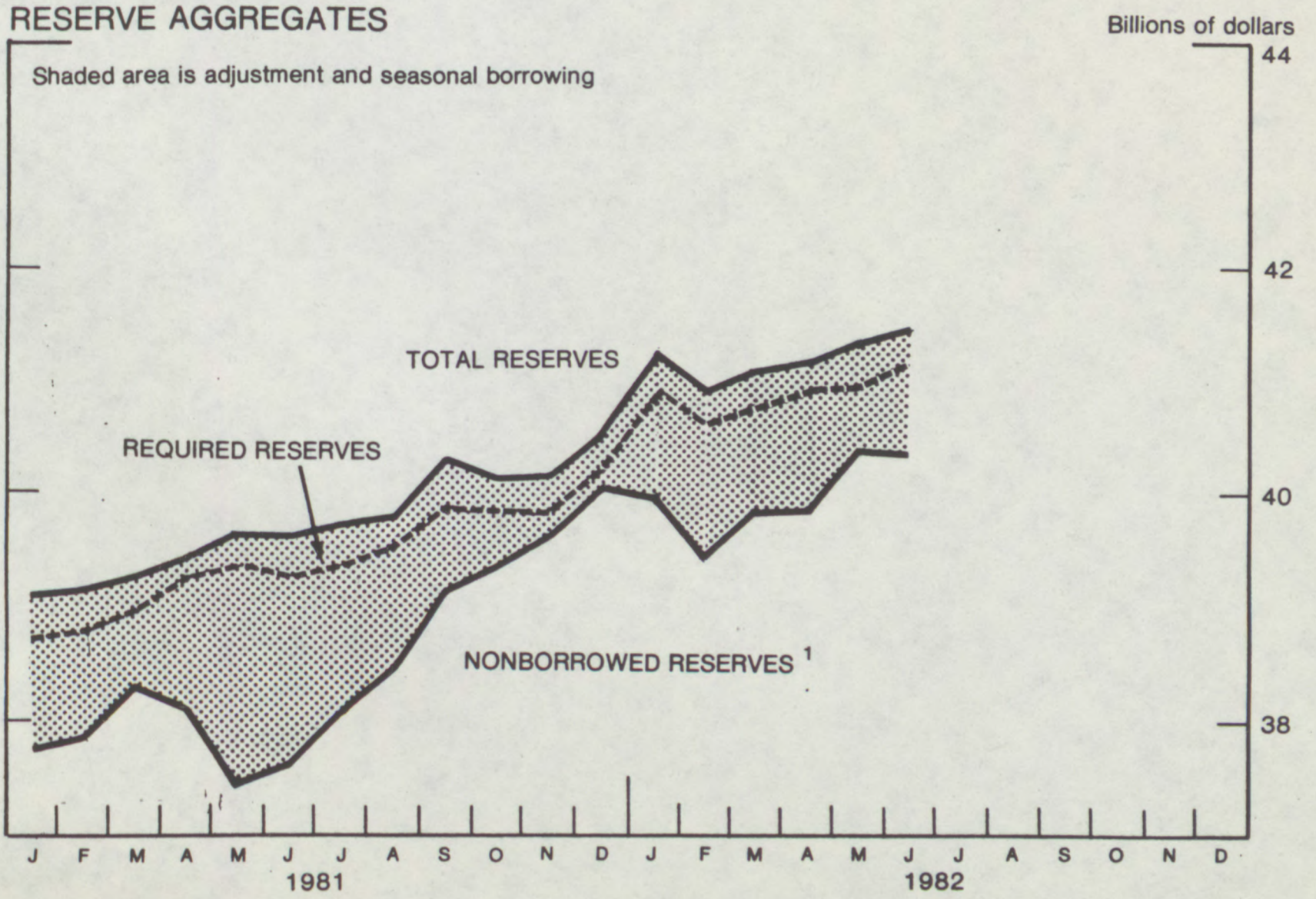
2/ INCLUDES SEASONAL BORROWINGS.

STRICTLY CONFIDENTIAL (FR)
Class II - FOMC
7/19/82

The Monetary Base and Reserve Aggregates

Seasonally Adjusted





1 Includes extended credit.

RESERVE AGGREGATE MEASURES[1]
(Percent annual rates of change)

	Reserve Aggregates		Monetary Base		Memo: Currency share of growth in Board Base[4]
	Total	Nonborrowed[2]	Board	St. Louis[3]	
Fourth quarter to fourth quarter					
1979	2.5	0.1	7.7	8.1	6.9
1980	7.1 (6.0)	7.8 (6.6)	8.8 (8.5)	8.2	6.9
1981	4.3	7.5	4.9	4.3	4.1
Quarterly averages					
1981--Q1	5.5	11.0	5.2	4.5	3.8
Q2	4.2	-2.7	5.8	7.3	5.8
Q3	4.0	9.2	4.3	3.7	3.5
Q4	3.2	11.7	3.9	1.9	3.2
1982--Q1	8.3	0.3	8.0	10.3	5.9
Q2	2.2	4.8	7.3	9.1	6.9
Monthly					
1982--January	22.2	-2.5	11.6	12.7	5.0
February	-10.2	-17.6	3.4	10.2	5.8
March	4.8	14.4	4.1	5.0	3.6
April	2.7	0.5	9.2	10.9	8.6
May	4.3	16.6	9.0	10.0	7.8
June	3.7	-0.9	7.8	9.9	7.0

Note: Figures in parentheses reflect growth adjusted for the impact of the elimination of weekend reserve avoidance activities.

1. Seasonally adjusted and adjusted for changes in reserve requirements.
2. Includes extended credit.
3. Compound rates of growth; rates in other columns are calculated on a simple basis.
4. Rate of growth in currency component of the money stock weighted by share of currency in the monetary base.

COMPOSITION OF GROWTH IN TOTAL RESERVES[1]

	ANNUAL GROWTH RATES (in percent)		CONTRIBUTIONS TO ANNUAL GROWTH RATES IN TOTAL RESERVES (in percentage points)						MEMO: Contribution of the lag in accounting to growth in total reserves[4] (in percentage points)
					Components of Required Reserves				
	Non-borrowed reserves plus extended credit	Total reserves	Excess reserves	Required reserves	Transactions deposits in M1[2]	Savings and small time[3]	Large time[3]	Other	
	1	2	3	4	5	6	7	8	9
1981--JUNE	5.9	-0.3	2.4	-2.7	-11.3	2.9	6.3	-0.5	-5.8
JULY	14.8	3.3	0.1	3.2	0.7	2.7	3.7	-3.9	2.1
AUG.	13.2	2.5	-1.5	4.0	-2.1	1.7	5.6	-1.2	-5.1
SEPT.	21.4	15.1	3.7	11.5	5.7	-0.4	3.4	2.8	3.2
OCT.	6.7	-5.8	-4.1	-1.7	8.8	0.5	0.5	-11.6	6.5
NOV.	8.5	1.0	2.0	-1.0	7.8	1.9	-1.3	-9.5	-13.3
DEC.	11.7	11.3	-0.7	12.0	4.2	0.2	3.0	4.7	4.8
1982--JAN.	-2.5	22.2	2.9	19.3	14.1	2.1	2.4	0.6	-2.0
FEB.	-17.6	-10.2	-3.3	-6.9	-7.7	4.0	2.2	-5.4	8.2
MAR.	14.4	4.8	1.7	3.1	4.2	2.5	0.9	-4.4	-0.8
APR.	0.5	2.7	-2.6	5.3	1.7	5.4	0.3	-2.2	-8.9
MAY	16.0	4.3	2.5	1.8	-3.0	4.8	2.0	-2.0	6.5
JUNE	-0.9	3.7	-1.0	4.7	-1.3	4.3	5.0	-3.3	3.4
3-MONTH GROWTH RATES									
Dec. '81 to Mar. '82	-2.0	5.5	0.4	5.1	3.5	2.9	1.9	-3.1	1.9
Mar. '82 to June '82	5.2	3.6	-0.3	3.9	-0.9	4.8	2.5	-2.5	0.4

1. SEASONALLY ADJUSTED AND ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS.

2. EXCLUDES A SMALL AMOUNT OF RESERVES BEHIND THESE ACCOUNTS AT QUARTERLY REPORTERS, THRIFTS, AND AGENCIES AND BRANCHES OF FOREIGN BANKS FOR WHICH A BREAKDOWN OF RESERVES BY COMPONENT IS NOT PRESENTLY AVAILABLE SUCH RESERVES ARE INCLUDED IN "OTHER".

3. FIGURES FOR MEMBER COMMERCIAL BANKS ONLY. THE SMALL AMOUNT OF SUCH RESERVES FOR NON-PERSONAL SAVINGS AND TIME DEPOSITS AT NONMEMBER INSTITUTIONS IS INCLUDED IN "OTHER".

4. CHANGE IN REQUIRED RESERVES USING LAGGED ACCOUNTING LESS CHANGE IN REQUIRED RESERVES USING CONTEMPORANEOUS ACCOUNTS.

COMPOSITION OF TOTAL RESERVES[1]

	LEVEL (in millions of dollars)		COMPOSITION OF TOTAL RESERVES (in millions of dollars)						MEMO:
					Components of Required Reserves				
	Non-borrowed reserves plus extended credit	Total reserves	Excess reserves	Required reserves	Transactions deposits in M1[2]	Savings and small time[3]	Large time[3]	Other	Required reserves under contemporaneous reserve accounting (in millions of dollars)
	1	2	3	4	5	6	7	8	9
1981--JUNE	37,588	39,619	338	39,281	20,639	7,923	5,446	5,274	39,347
JULY	38,051	39,727	340	39,387	20,662	8,013	5,567	5,145	39,382
AUG.	38,471	39,810	292	39,518	20,593	8,068	5,752	5,105	39,683
SEPT.	39,156	40,312	414	39,898	20,782	8,055	5,863	5,198	39,957
OCT.	39,375	40,118	278	39,840	21,078	8,072	5,880	4,809	39,682
NOV.	39,652	40,150	344	39,805	21,341	8,136	5,836	4,493	40,092
DEC.	40,040	40,527	319	40,208	21,480	8,143	5,935	4,650	40,333
1982--JAN.	39,957	41,277	418	40,859	21,956	8,215	6,017	4,671	41,050
FEB.	39,370	40,927	304	40,623	21,690	8,353	6,094	4,487	40,532
MAR.	39,842	41,090	361	40,728	21,831	8,436	6,124	4,336	40,665
APR.	39,858	41,181	273	40,908	21,890	8,622	6,135	4,261	41,150
MAY.	40,388	41,329	359	40,971	21,788	8,785	6,205	4,192	40,990
JUNE	40,357	41,457	326	41,132	21,743	8,933	6,378	4,078	41,033

1. SEASONALLY ADJUSTED AND ADJUSTED FOR CHANGES IN RESERVE REQUIREMENTS.
2. EXCLUDES A SMALL AMOUNT OF RESERVES BEHIND THESE ACCOUNTS AT QUARTERLY REPORTERS. THRIFTS, AND AGENCIES AND BRANCHES OF FOREIGN BANKS FOR WHICH A BREAKDOWN OF RESERVES BY COMPONENT IS NOT PRESENTLY AVAILABLE. SUCH RESERVES ARE INCLUDED IN "OTHER".
3. FIGURES FOR MEMBER COMMERCIAL BANKS ONLY. THE SMALL AMOUNT OF SUCH RESERVES FOR NON-PERSONAL SAVINGS AND TIME DEPOSITS AT NONMEMBER INSTITUTIONS IS INCLUDED IN "OTHER".

DISCOUNT WINDOW BORROWING BY TYPE
(millions of dollars, not seasonally adjusted)

					Memo: Selected Interest Rates		
	Total	Extended[1]	Surcharge	Other	Federal Funds Rate	Discount Rate	FF-Discount Rate Spread
1980--Q3	788	176	-	612	9.83	10.35	- .52
Q4	1,686	1	191	1,494	15.85	11.78	4.07
1981--Q1	1,233	35	48	1,150	16.57	13.00	3.57
Q2	1,868	7	124	1,737	17.78	13.62	4.16
Q3	1,518	128	35	1,355	17.50	14.00	3.58
Q4	827	250	17	560	13.59	14.00	1.59
1982--January	1,518	197	-	1,321	13.22	12.00	1.22
February	1,790	232	-	1,558	14.78	12.00	2.78
March	1,555	308	-	1,247	14.68	12.00	2.68
April	1,479	279	-	1,200	14.94	12.00	2.94
May	1,129	177	-	952	14.49	12.00	2.49
June 2	1,048	132	-	916	13.43	12.00	1.43
9	1,304	115	-	1,189	13.60	12.00	1.60
16	929	104	-	825	14.24	12.00	2.24
23	1,015	96	-	919	14.17	12.00	2.17
30	1,616	93	-	1,523	14.81	12.00	2.81
July 7	1,072	87	-	985	14.47	12.00	2.47
14	558	70	-	488	13.18	12.00	1.18

1. Unpublished data. This series includes credit extended to individual institutions affected by exceptional circumstances and credit extended to institutions facing protracted liquidity strains.

VELOCITY V1
GNP/M1
SEASONALLY ADJUSTED PERCENT ANNUAL RATES OF GROWTH 1/

JULY 13, 1982

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	Q I	Q II	QIII	Q IV	ANN.
1959	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	8.0	-4.3	8.6	-----
1960	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	10.4	0.2	-2.5	-2.4	1.4
1961	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	0.6	5.6	4.3	7.2	4.5
1962	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	5.9	3.4	4.7	1.6	4.0
1963	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	1.2	2.2	3.5	3.2	2.5
1964	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	5.7	2.6	-1.1	-1.3	1.5
1965	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	9.2	5.4	4.0	4.6	5.9
1966	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	4.9	2.0	6.8	6.4	5.1
1967	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-0.9	-1.6	-0.2	2.3	-0.1
1968	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	3.4	5.2	0.4	-1.5	1.9
1969	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	1.9	3.9	5.8	-0.3	2.9
1970	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	0.3	1.7	2.0	-4.1	0.0
1971	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	8.6	-1.8	0.3	3.8	2.7
1972	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	4.8	3.2	0.3	2.8	2.8
1973	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	7.9	2.5	4.6	6.7	5.5
1974	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-3.5	6.7	4.3	1.4	2.2
1975	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-1.4	3.8	8.7	7.9	4.8
1976	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	6.6	-0.4	2.8	2.5	2.9
1977	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	5.5	4.7	5.2	-0.6	3.7
1978	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	0.9	9.9	3.6	7.5	5.6
1979	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	6.9	-4.1	2.4	4.0	2.3
1980	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	5.2	2.1	-2.7	3.0	1.9
1981	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	13.2	-4.6	10.7	-1.2	4.5
													(18.9)	(-1.1)	(11.4)	(-0.2)	(7.4)
1982	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-10.1	3.5p	-----	-----	-----

p -- projected

1/ SIMPLE ANNUAL RATES OF GROWTH, QUARTERLY GROWTH RATES BASED ON QUARTERLY AVERAGE DATA, ANNUAL GROWTH RATES CALCULATED FROM FOURTH QUARTER AVERAGE TO FOURTH QUARTER AVERAGE.
NOTE: THE VELOCITY FIGURES IN PARENTHESES ARE CONSTRUCTED WITH M1 DATA ADJUSTED FOR ESTIMATED SHIFTS INTO OTHER CHECKABLE DEPOSITS IN 1981 FROM OTHER THAN DEMAND DEPOSITS.

VELOCITY V2
GNP/M2
SEASONALLY ADJUSTED PERCENT ANNUAL RATES OF GROWTH 1/

JULY 13, 1982

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	Q I	Q II	QIII	Q IV	ANN.
1959	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	5.6	-6.9	3.6	-----
1960	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	7.4	-3.8	-5.7	-8.0	-2.5
1961	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-4.2	1.2	0.0	4.0	0.3
1962	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	0.3	-2.2	-2.0	-4.2	-2.0
1963	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-3.5	-2.5	-0.5	-0.8	-1.8
1964	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	1.5	-1.3	-3.3	-4.4	-1.9
1965	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	4.2	1.0	0.8	3.1	2.3
1966	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	4.1	1.5	3.0	3.2	3.0
1967	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-3.5	-5.5	-2.3	0.0	-2.8
1968	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	2.0	5.6	0.3	-2.5	1.3
1969	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	2.5	3.5	4.9	-1.0	2.5
1970	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	2.7	2.2	0.0	-8.2	-0.9
1971	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	2.2	-8.6	-4.0	-3.6	-3.5
1972	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	0.5	-0.3	-4.3	-0.8	-1.2
1973	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	5.7	0.8	3.1	6.1	4.0
1974	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-4.5	5.0	3.5	0.3	1.1
1975	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-5.9	-4.8	1.8	1.3	-1.9
1976	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-0.5	-6.3	-3.8	-4.6	-3.8
1977	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	1.0	0.3	2.3	-1.0	0.7
1978	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	0.8	10.9	3.8	6.5	5.6
1979	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	4.9	-4.6	2.2	2.9	1.4
1980	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	4.6	-6.2	-2.7	5.1	0.2
1981	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	10.4	-7.3	2.6	-4.3	0.3
1982	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-9.6	-2.5p	-----	-----	-----

p -- projected

1/ SIMPLE ANNUAL RATES OF GROWTH, QUARTERLY GROWTH RATES BASED ON QUARTERLY AVERAGE DATA, ANNUAL GROWTH RATES CALCULATED FROM FOURTH QUARTER AVERAGE TO FOURTH QUARTER AVERAGE.

VELOCITY V3
GNP/M3
SEASONALLY ADJUSTED PERCENT ANNUAL RATES OF GROWTH 1/

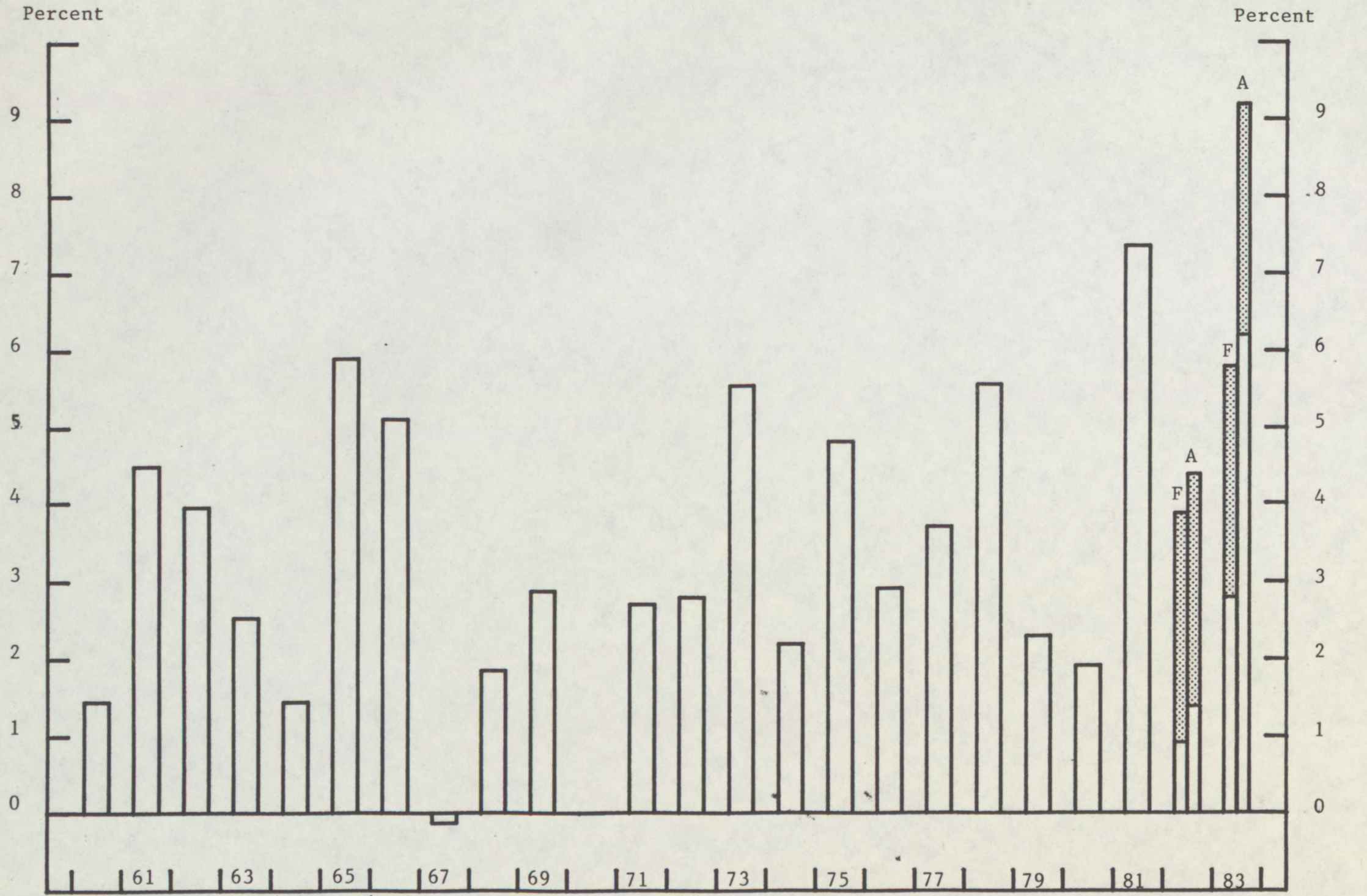
JULY 13, 1982

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	Q I	Q II	QIII	Q IV	ANN.
1959	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	5.6	-6.7	3.9	-----
1960	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	7.5	-3.8	-6.0	-8.5	-2.7
1961	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-4.7	0.5	-0.5	3.5	-0.3
1962	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-0.3	-3.2	-2.3	-4.8	-2.6
1963	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-4.3	-3.4	-1.3	-1.8	-2.7
1964	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	0.5	-1.6	-4.2	-5.6	-2.7
1965	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	3.2	0.5	-0.5	2.1	1.4
1966	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	3.7	-0.3	1.9	5.0	2.6
1967	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-6.2	-6.1	-2.7	-0.3	-3.8
1968	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	1.6	6.2	-0.8	-4.2	0.7
1969	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	4.0	5.3	9.2	1.8	5.2
1970	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	3.8	-1.0	-5.1	-12.5	-3.7
1971	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-1.1	-7.7	-4.6	-5.2	-4.6
1972	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	0.0	-1.7	-5.6	-1.4	-2.2
1973	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	2.0	-3.9	-1.7	3.4	-0.1
1974	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-6.8	0.0	0.0	0.6	-1.6
1975	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-5.2	0.6	5.2	2.0	0.7
1976	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	2.6	-5.1	-2.9	-1.7	-1.8
1977	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	2.3	0.0	0.0	-3.5	-0.3
1978	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-2.0	7.0	1.2	4.3	2.6
1979	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	3.4	-4.5	0.9	0.9	0.1
1980	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	4.0	-7.6	-1.7	3.2	-0.6
1981	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	6.6	-7.3	-0.3	-4.6	-1.4
1982	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-8.4	-3.9p	-----	-----	-----

p -- projected

1/ SIMPLE ANNUAL RATES OF GROWTH, QUARTERLY GROWTH RATES BASED ON QUARTERLY AVERAGE DATA, ANNUAL GROWTH RATES CALCULATED FROM FOURTH QUARTER AVERAGE TO FOURTH QUARTER AVERAGE.

Growth in the Velocity of M1
(Fourth quarter over fourth quarter)



F -- FOMC A -- Administration

Note: Velocity for 1981 is calculated with M1 data adjusted for shifts into OCD from other than demand deposits. Forecasts growth ranges for 1982 and 1983, denoted by shaded areas, are based on the FOMC's target growth ranges for M1. The GNP forecast of the FOMC is the midpoint of the range of member's individual forecasts.

Cyclical Growth in the Velocity of M1
(percent, at annual rates)

	Growth From Trough to		
Trough	2 quarters following	4 quarters following	6 quarters following
61 Q1	5.0	5.9	5.4
70 Q2	3.4	2.7	3.2
75 Q1	6.3	6.9	5.0
80 Q3	11.0	8.4	1.8

Note: Rates of growth from 80 Q3 trough to 2 quarters and 4 quarters later calculated with shift-adjusted data.

Behavior of Velocity During
4 Quarters After Cyclical Troughs
(Seasonally adjusted annual rates of growth)

Trough	Quarters After Trough				
M1	1	2	3	4	Avg
1949 Oct (Q4)*	13.1	8.0	20.7	12.4	13.6
1954 May (Q2)*	0.8	5.7	8.8	5.8	5.3
1958 Apr (Q2)*	7.8	6.6	3.1	8.0	6.4
1961 Feb (Q1)	5.6	4.3	7.2	5.9	5.8
1970 Nov (Q4)	8.6	-1.8	0.3	3.8	2.7
1975 Mar (Q1)	3.8	8.7	7.9	6.6	6.7
1980 July (Q3)	3.0	13.2	-4.6	10.7	5.6
Avg	6.1	6.4	6.2	7.6	6.6
M2					
1949 Oct (Q4)*	13.5	9.0	22.5	13.1	14.5
1954 May Q2)*	-0.6	5.4	9.1	5.6	4.9
1958 Apr (Q2)*	4.9	6.7	2.9	7.9	5.6
1961 Feb (Q1)	1.2	0.0	4.0	0.3	1.4
1970 Nov (Q4)	2.2	-8.6	-4.0	-3.6	-3.5
1975 Mar (Q1)	-4.8	1.8	1.3	-0.5	-0.6
1980 July (Q3)	5.1	10.4	-7.3	2.6	2.7
Avg	3.1	3.5	4.1	3.6	3.6

*Old M1 and M2 definitions

Changes in the Velocity of M1
(In percent, at an annual rate)

	2-Quarter Moving Average				3-Quarter Moving Average				4-Quarter Moving Average			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q2	Q4
1960	9.5	5.3^{P}	-1.2	-2.5	4.9	6.4^{P}	2.7	-1.6	5.7	3.7^{P}	4.2	1.4
1961	-0.9^{T}	3.1	5.0	5.8	-1.4^{T}	1.3	3.5	5.7	-1.0^{T}	0.3	2.0	4.3
1962	6.6	4.7	4.1	3.2	5.8	5.5	4.7	3.2	5.8	5.2	5.3	3.9
1963	1.4	1.7	2.9	3.4	2.5	1.7	2.3	3.0	2.7	2.4	2.1	2.5
1964	4.5	4.2	0.8	-1.2	4.1	3.8	2.4	0.1	3.7	3.8	2.6	1.5
1965	4.0	7.3	4.7	4.3	2.3	4.4	6.2	4.7	2.4	3.1	4.3	5.8
1966	4.8	3.5	4.4	6.6	4.5	3.8	4.6	5.1	4.7	3.9	4.6	5.0
1967	2.8	-1.3	-0.9	1.2	4.1	1.3	-0.9	0.2	3.6	2.7	0.9	-0.1
1968	2.9	4.3	2.8	-0.6	1.8	3.6	3.0	1.4	1.0	2.7	2.8	1.9
1969	0.2	2.9	4.9	2.8^{P}	0.3	1.4	3.9	3.1^{P}	1.5	1.2	2.5	2.8^{P}
1970	0.0	1.0	1.9	-1.1^{T}	1.9	0.7	1.3	-0.1^{T}	2.4	1.9	0.9	0.0^{T}
1971	2.3	3.4	-0.8	2.1	2.2	0.9	2.4	0.8	2.1	1.2	0.8	2.7
1972	4.3	4.0	1.8	1.6	3.0	3.9	2.8	2.1	1.8	3.0	3.0	2.8
1973	5.4	5.2	3.6	5.7^{P}	3.7	4.4	5.0	4.6^{P}	3.6	3.4	4.5	5.4^{P}
1974	1.6	1.6	5.5	2.9	2.6	3.3	2.5	4.1	2.6	3.6	3.6	3.0
1975	0.0^{T}	1.2	6.3	8.3	1.4^{T}	1.3	3.7	6.8	2.8^{T}	2.0	3.1	4.8
1976	7.3	3.2	1.2	2.7	7.7	4.7	3.0	1.6	6.7	5.7	4.2	2.9
1977	4.0	5.1	4.5	2.3	3.6	4.2	5.1	3.1	2.6	3.9	4.5	3.7
1978	0.2	5.4	6.8	5.6	1.8	3.4	4.8	7.0	2.6	3.9	3.5	5.5
1979	7.2	1.4	-0.9	4.2	6.0	3.4	1.7	0.8	7.0	3.5	3.2	2.3
1980	4.6^{P}	3.7	-0.3^{T}	0.2	3.9^{P}	3.8	1.5^{T}	0.8	1.9^{P}	3.4	2.2^{T}	1.9
1981	8.1	4.3	3.1^{P}	4.8	4.5	3.9	6.4^{P}	1.6	3.9	2.2	5.6^{P}	4.5
1982	-5.7	-3.6			-0.2	-2.8			-1.3	0.6		

NOTE: Changes are for the period ending in the indicated quarter--e.g., the last number shown for 2-Quarter growth is for the period 1981:Q4 to 1982:Q2. P denotes reference cycle peak; T denotes reference cycle trough.

Changes in the Velocity of M2
(In percent, at an annual rate)

	2-Quarter Moving Average				3-Quarter Moving Average				4-Quarter Moving Average			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1960	5.5	1.8^{P}	-4.8	-6.9	1.4	2.4^{P}	-0.7	-5.8	2.4	0.8^{P}	3.8	-2.5
1961	-6.1^{T}	-1.5	0.6	2.0	-6.0^{T}	-3.7	-3.7	1.7	-5.4^{T}	-4.2	-2.8	0.3
1962	2.2	-0.9	-2.1	-3.1	1.4	0.7	-1.3	-2.8	1.4	0.5	0.0	-2.0
1963	-3.9	-3.0	-1.5	-0.7	-3.2	-3.4	-2.2	-1.3	-3.0	-3.1	-2.7	-1.8
1964	0.4	0.1	-2.3	-3.9	0.1	-0.2	-1.0	-3.0	-0.6	-0.3	-1.0	-1.9
1965	-0.1	2.6	0.9	2.0	-1.2	0.3	2.0	1.6	-1.2	-0.6	0.4	2.3
1966	3.6	2.8	2.3	3.1	2.7	2.9	2.9	2.6	2.3	2.4	2.9	3.0
1967	-0.2	-4.5	-3.9	-1.2	0.9	-1.9	-3.8	-2.6	1.1	-0.7	-2.0	-2.8
1968	1.0	4.3	3.0	-1.1	-0.1	2.5	2.6	1.1	-1.5	1.3	2.0	1.4
1969	0.0	3.0	4.2	2.0^{P}	0.1	1.2	3.6	2.5^{P}	1.5	1.0	2.1	2.5^{P}
1970	0.9	2.5	1.1	-4.1^{T}	2.2	1.3	1.6	-2.0^{T}	2.5	2.2	1.0	-0.8^{T}
1971	-3.0	-3.2	-6.3	-3.8	-2.0	-4.9	-3.5	-5.4	-1.0	-3.7	-4.7	-3.5
1972	-1.6	0.1	-2.3	-2.6	-2.4	-1.1	-1.4	-1.8	-3.9	-1.9	-1.9	-1.2
1973	2.5	3.3	2.0	4.6^{P}	0.2	1.9	3.2	3.3^{P}	0.1	0.4	2.2	3.9^{P}
1974	0.8	0.3	4.3	1.9	1.6	2.2	1.3	2.9	1.4	2.4	2.5	1.1
1975	-2.8^{T}	-5.4	-1.5	1.6	-0.7^{T}	-3.5	-3.0	-0.6	0.7^{T}	-1.7	-2.2	-1.9
1976	0.4	-3.4	-5.2	-4.2	0.9	-1.8	-3.5	-4.9	-0.6	-0.9	-2.3	-3.8
1977	-1.8	0.7	1.3	0.7	-2.5	-1.1	1.2	0.5	-3.4	-1.8	-0.3	0.7
1978	-0.1	5.9	7.4	3.4	0.7	3.6	5.2	7.1	0.6	3.3	3.6	5.5
1979	5.7	0.2	-1.2	2.6	5.1	2.3	0.8	0.2	6.5	2.7	2.3	1.4
1980	3.8^{P}	-0.8	-4.5^{T}	1.2	3.2^{P}	0.4	-1.4^{T}	-1.3	1.3^{P}	0.9	-0.4^{T}	0.2
1981	7.8	1.6	-2.4^{P}	-0.9	4.3	2.7	1.9^{P}	-3.0	1.7	1.4	2.7^{P}	0.4
1982	-7.0	-6.1			-3.8	-5.5			-4.7	-3.5		

Note: Changes are for the period ending in the indicated quarter--e.g., the last number shown for 2-Quarter growth is for the period 1981:Q4 to 1982:Q2. P denotes reference cycle peak; T denotes reference cycle trough.

Bank Credit
All Commercial Banks
Seasonally adjusted

Period	Total loans and investments (excluding IBFs)[1,2]	Investments		Total loans[1,2]	Selected loan components					Memo—Total loans and inv. (including IBFs)[3]
		U.S. gov't	others[2]		business[1,2]	real estate	consumer	security	nonbank financial	
	1	2	3	4	5	6	7	8	9	10
	level in billions of dollars									
MONTHLY:										
1981--NOVEMBER	1330.3	110.3	231.2	988.8	365.6	283.1	183.7	21.0	30.4	1330.3
DECEMBER	1319.1	111.0	231.4	976.7	360.2	285.7	185.1	21.9	30.2	1354.3
1982--JANUARY	1322.9	114.1	231.5	977.3	362.5	287.5	185.7	20.6	31.1	1373.5
FEBRUARY 5/	1335.2	115.1	232.0	988.0	367.8	289.8	185.7	20.8	31.4	1390.5
MARCH 6/	1345.3	114.4	233.1	997.8	372.2	292.3	186.4	20.9	32.7	1406.0
APRIL	1355.4	116.6	234.0	1004.8	375.3	293.9	186.9	20.9	33.3	1421.0
MAY	1364.7	116.3	234.9	1013.5	381.1	295.5	187.4	20.6	33.2	1435.4
JUNE 7/	1371.7	115.8	235.8	1020.1	385.7	297.3	188.3	19.5	33.6	1446.8
	annual percentage rate of change									
ANNUAL:										
1977--YEAR	10.8	-1.0	7.1	14.0	10.5	17.7	18.8	19.2	-2.7	10.8
1978--YEAR	13.5	-6.0	8.5	17.9	16.2	19.8	19.1	-5.7	5.6	13.5
1979--YEAR	12.6	0.7	9.9	14.6	18.0	14.8	12.2	-4.0	8.3	12.6
1980--YEAR	9.1	16.4	12.0	7.7	12.2	8.5	-2.8	-3.1	1.0	9.1
1981--YEAR	7.9	0.9	8.2	8.7	12.7	8.8	3.1	18.4	3.8	8.9
QUARTERLY:										
1981--QTR. 1ST 4/	6.6	10.5	9.3	5.5	5.1	7.9	2.2	23.8	2.7	6.6
QTR. 2ND 4/	10.9	13.5	4.0	12.2	16.6	10.8	1.3	28.6	28.7	10.9
QTR. 3RD	6.8	-12.0	7.2	9.1	17.9	8.0	4.4	-36.2	-5.1	6.8
QTR. 4TH	6.4	-7.8	11.2	6.9	9.2	7.3	4.1	58.6	-10.3	10.2
1982--QTR. 1ST	10.1	11.5	2.8	11.5	16.8	7.8	2.8	-18.3	33.1	14.8
QTR. 2ND	8.0	4.9	4.8	9.1	14.9	6.6	3.0	-26.8	11.0	11.4
MONTHLY:										
1981--AUGUST	8.5	-8.2	8.1	10.8	19.4	9.5	5.3	-131.3	3.8	8.5
SEPTEMBER	5.2	-24.9	9.7	7.9	13.4	6.4	3.9	80.4	-22.8	5.2
OCTOBER	5.6	-7.4	16.5	4.5	10.6	5.1	1.3	31.4	-19.4	5.6
NOVEMBER	3.3	-23.5	13.1	4.0	-0.7	5.5	2.0	85.7	-3.9	3.3
DECEMBER	10.1	7.6	3.6	12.0	17.4	11.0	9.1	51.4	-7.9	21.6
1982--JANUARY	9.9	33.5	1.0	9.3	16.8	6.3	3.9	-71.2	35.8	17.0
FEBRUARY 5/	12.1	10.5	3.1	14.4	17.9	9.6	0.0	11.7	11.6	11.4
MARCH 6/	8.0	-9.4	4.1	10.6	15.1	7.4	4.5	5.8	49.7	12.5
APRIL	9.4	23.1	4.6	9.1	10.6	5.7	3.2	0.0	22.0	12.6
MAY	9.0	-3.3	4.6	11.3	19.1	6.5	3.2	-17.2	-3.6	12.2
JUNE 7/	5.2	-5.2	5.1	6.5	14.5	7.3	2.6	-64.1	14.5	9.1

NOTES: MONTHLY AVERAGES REFLECT PRORATED AVERAGES OF WEDNESDAY DATA FOR DOMESTICALLY CHARTERED BANKS AND AVERAGES OF CURRENT AND PREVIOUS MONTH-END DATA FOR FOREIGN-RELATED INSTITUTIONS. LOANS ARE ADJUSTED TO EXCLUDE DOMESTIC INTERBANK LOANS.

1/ INCLUDES LOANS SOLD TO AFFILIATES.
2/ BEGINNING IN DECEMBER, 1981 OUTSTANDINGS WERE REDUCED DUE TO SHIFTS OF ASSETS FROM U.S. BANKING OFFICES TO INTERNATIONAL BANKING FACILITIES (IBFS). GROWTH RATES ARE ADJUSTED TO ELIMINATE ESTIMATED EFFECTS OF THESE SHIFTS.
3/ BEGINNING IN DECEMBER, 1981 COLUMN 10 SHOWS TOTAL LOANS AND INVESTMENTS INCLUDING AMOUNTS CARRIED IN IBF ACCOUNTS.
4/ ABSORPTION OF A NONBANK AFFILIATE BY A LARGE COMMERCIAL BANK, ADDED THE FOLLOWING TO FEBRUARY, 1981 LEVELS: TOTAL LOANS AND INVESTMENTS, $1.0 BILLION; TOTAL LOANS AND LEASES, $1.0; BUSINESS LOANS, $0.5; REAL ESTATE LOANS, $0.1; AND NONBANK FINANCIAL LOANS, $0.1. IN ADDITION, AN ACCOUNTING PROCEDURE CHANGE BY ONE BANK REDUCED BUSINESS LOANS BY $0.1 BILLION IN APRIL, 1981. ANNUAL RATES HAVE BEEN ADJUSTED FOR THESE AMOUNTS.
5/ THE MERGER OF A MUTUAL SAVINGS BANK WITH A SMALL COMMERCIAL BANK ADDED THE FOLLOWING BEGINNING FEBRUARY 24, 1982: TOTAL LOANS AND SECURITIES, $1.0 BILLION; U.S. TREASURY SECURITIES, $0.1; OTHER SECURITIES, $0.1; TOTAL LOANS AND LEASES, $0.8; REAL ESTATE LOANS, $0.7 BILLION. GROWTH RATES HAVE BEEN ADJUSTED FOR THESE AMOUNTS.
6/ THE MERGER OF A MUTUAL SAVINGS BANK WITH A COMMERCIAL BANK ADDED THE FOLLOWING BEGINNING MARCH 17, 1982: TOTAL LOANS AND SECURITIES, $0.6 BILLION; U.S. TREASURY SECURITIES, $0.1; OTHER SECURITIES, $0.1; TOTAL LOANS AND LEASES, $0.4; REAL ESTATE LOANS, $0.4 BILLION. GROWTH RATES HAVE BEEN ADJUSTED FOR THESE AMOUNTS.
7/ THE ACQUISITION OF LOANS BY A COMMERCIAL BANK FROM A NONBANK INSTITUTION INCREASED TOTAL LOANS AND SECURITIES, TOTAL LOANS AND LEASES, AND LOANS TO INDIVIDUALS $0.5 BILLION BEGINNING JUNE 2, 1982.

Short- and Intermediate-Term Business Credit

Seasonally adjusted monthly averages[1]

Period	Business loans at commercial banks excluding acceptances[2]						Commercial paper of non-financial business	Commercial paper and bank loans[7]	Business loans at finance companies	Total bankers acceptances outstanding	Total short and intermediate-term business credit[8]
	total at U.S. offices[3,4]	large banks[3,4]	foreign-related institutions[5]	small banks[4]	foreign branches[6]	total[3,4]					
	1	2	3	4	5	6	7	8	9	10	11
	level in billions of dollars										
1981--OCTOBER	356.6	185.5	49.7	121.5	10.8	367.4	50.6	417.9	79.0	65.3	562.2
NOVEMBER	356.7	186.1	47.8	122.8	12.2	369.0	52.2	421.1	79.8	67.4	568.3
DECEMBER 9/	351.2	190.0	37.1	124.1	13.0	364.2	53.3	417.5	80.3	68.5	566.3
1982--JANUARY	353.8	194.1	33.7	126.0	13.1	366.9	53.4	420.2	80.2	68.6	569.1
FEBRUARY	358.9	197.6	34.0	127.3	13.0	371.8	55.5	427.4	80.5	69.6	577.4
MARCH	362.6	198.5	34.2	130.0	13.9	376.5	57.3	433.8	80.5	70.5	584.9
APRIL	365.1	201.5	33.8	129.8	14.1	379.2	58.0	437.2	80.2	72.0	589.4
MAY	371.0	205.1	33.6	132.3	14.9	385.9	59.6	445.5	80.1	73.8	599.4
JUNE	376.6	208.9	33.7	134.0	14.2	390.8	59.7	450.5	N.A.	N.A.	N.A.
	annual percentage rate of change										
1978--YEAR	17.3	14.9	48.5	13.7	50.0	17.3	25.5	17.8	14.5	32.7	18.4
1979--YEAR	17.9	16.9	43.0	12.0	222.2	18.7	45.0	20.7	12.5	35.4	20.6
1980--YEAR	12.7	11.7	19.2	11.8	44.8	13.0	25.6	14.2	1.0	23.9	13.0
1981--YEAR 9/	12.7	11.6	8.4	16.2	209.5	15.2	44.8	18.2	13.1	25.7	18.3
1981--2ND QTR.	16.2	20.7	2.7	14.8	11.4	15.9	47.6	19.3	19.3	26.6	20.2
3RD QTR.	19.7	17.9	38.0	15.3	122.2	21.8	57.9	25.9	14.7	16.6	23.3
4TH QTR. 9/	9.3	14.1	-25.8	16.4	153.2	13.0	21.3	14.0	7.6	20.9	13.8
1982--1ST QTR. 9/	16.5	17.3	0.9	21.0	27.7	16.9	30.0	18.5	1.0	11.7	15.2
2ND QTR.	15.7	21.2	2.6	12.6	8.6	15.5	16.8	15.6	N.A.	N.A.	N.A.
1981--AUGUST	22.1	22.7	36.4	14.4	121.5	24.0	62.1	28.7	15.4	17.0	25.0
SEPTEMBER	16.5	11.1	53.1	11.1	96.6	18.8	44.3	21.5	1.5	9.3	17.7
OCTOBER	9.5	5.2	2.4	20.1	178.7	13.9	0.0	11.9	3.0	3.7	9.5
NOVEMBER	0.3	3.9	-45.9	12.8	155.6	5.2	37.9	9.2	12.2	38.6	13.0
DECEMBER 9/	17.8	32.9	-35.1	15.6	78.7	19.5	25.3	20.5	7.5	19.6	18.6
1982--JANUARY	17.9	24.4	-25.9	24.2	9.2	17.6	2.3	15.7	-1.5	1.8	11.6
FEBRUARY	17.6	21.5	15.9	11.4	-9.2	16.7	47.2	20.5	4.5	17.5	17.9
MARCH	13.2	5.4	13.0	25.4	83.1	15.6	38.9	18.5	0.0	15.5	15.6
APRIL	8.9	18.6	-5.2	-0.9	17.3	9.2	14.7	9.9	-4.5	25.5	9.8
MAY	19.9	21.9	7.8	23.0	68.1	21.6	33.1	23.1	-1.5	30.0	20.7
JUNE	17.7	22.1	5.2	15.4	-56.4	15.0	2.0	13.3	N.A.	N.A.	N.A.

N.A.--NOT AVAILABLE. E--ESTIMATE.

1/ ALL DATA ARE MONTHLY AVERAGES. COLUMNS 2, 4, 5, AND 7 ARE PRORATED AVERAGES OF WEDNESDAY DATA. COLUMNS 3, 9, AND 10 ARE AVERAGES OF CURRENT AND PREVIOUS MONTH-END DATA.

2/ INCLUDES SMALL AMOUNTS OF ACCEPTANCES HELD BY SMALL BANKS AND FOREIGN BRANCHES FOR WHICH NO DATA ARE AVAILABLE. EXCLUDES SMALL AMOUNTS OF COMMERCIAL PAPER HELD BY LARGE U.S. BANKS AND FOREIGN-RELATED INSTITUTIONS.

3/ INCLUDES LOANS SOLD TO BANKS' AFFILIATES.

4/ BUSINESS LOANS WERE INCREASED BY $0.5 BILLION AT LARGE BANKS AND REDUCED BY THE SAME AMOUNT AT SMALL BANKS ON JANUARY 6, 1982, REFLECTING ADJUSTMENTS FOR MERGERS THAT OCCURRED DURING 1981. ABSORPTION OF A NONBANK AFFILIATE BY A LARGE COMMERCIAL BANK ADDED $0.5 BILLION TO FEBRUARY FIGURES FOR BUSINESS LOANS, AND AN ACCOUNTING PROCEDURE CHANGE BY ONE BANK SUBTRACTED $0.1 BILLION FROM BUSINESS LOANS FOR APRIL.

5/ U.S. BRANCHES AND AGENCIES OF FOREIGN BANKS, NEW YORK INVESTMENT COMPANY SUBSIDIARIES OF FOREIGN BANKS, AND EDGE ACT CORPORATIONS.

6/ CREDIT EXTENDED BY FOREIGN BRANCHES OF U.S. CHARTERED BANKS TO NONBANK U.S. RESIDENTS. INCLUDES AN UNKNOWN AMOUNT OF CREDIT EXTENDED TO OTHER THAN NONFINANCIAL BUSINESSES.

7/ SUM OF COLUMNS 6 AND 7.

8/ SUM OF COLUMNS 6, 7, 9, AND 10.

9/ OUTSTANDINGS FOR COLUMNS 1, 2, 3, 4, 6, 8, AND 11 WERE REDUCED BEGINNING DECEMBER, 1981 DUE TO SHIFTS OF ASSETS TO INTERNATIONAL BANKING FACILITIES (IBFS). GROWTH RATES SHOWN ARE ADJUSTED TO ELIMINATE ESTIMATED EFFECTS OF THESE SHIFTS.

SELECTED CHARACTERISTICS OF SHORT-TERM COMMERCIAL AND INDUSTRIAL LOANS MADE BY 48 LARGE BANKS

	1978	1979	1980	1980 Aug. 4-8	1980 Nov. 3-8	1981 Feb. 2-7	1981 May 4-9	1981 Aug. 3-8	1981 Nov. 2-7	1982 Feb. 1-6	1982 May 3-8
Percent of gross loan extensions made at rates below prime	16.4	32.9	47.1	64.7	20.3	71.5	38.0	75.0	85.0	62.3	78.6
Spread between prime rate and weighted average rate on loans made below prime (basis points)	81	100	206	212	65	181	65	136	218	61	84
Average loan size ($1,000)											
- loans made below prime	746	674	1934	4683	898	2811	894	3714	5379	5339	6777
- loans made at or above prime	173	221	312	223	593	248	580	367	234	622	401
Average maturity (months)[1]											
- loans made below prime	1.4	1.3	1.0	.7	1.2	.7	.9	.7	0.6	0.8	.7
- loans made at or above prime	3.4	3.5	3.0	3.2	1.9	2.7	1.7	2.5	3.7	1.6	2.1

Source: Survey of Terms of Bank Lending.
Note: Beginning August 1979, calculations are based on prime rates reported by banks; calculations for earlier periods employ the prevailing prime rate.
1. Average maturities are weighted by loan volumes exclusive of loans with no stated maturity (demand loans).

MERGER-RELATED BANK CREDIT DEVELOPMENTS: 1981-1982
($ billions)

	Total (U.S. and foreign banks)	U.S. Bank participation
Estimated credit lines arranged for potential acquisitions of U.S. nonfinancial corporations in 1981-1982[1]	54.2	26.8
Estimated takeover lines cancelled or converted to general corporate purposes by June 11, 1982	27.5	13.2
Takeover-related loans taken down[2]	25.0	10.4

1. Publicly reported credit lines--mostly arranged in July 1981.
2. Total includes two large loans to Mobil Corporation, the second under lines made available by repayment of the first. A large volume of these takeover loans have been repaid following failure of takeover attempts or due to refinancing in other markets to reduce borrowing costs. The status of most of the smaller loans is unknown, but it is estimated that less than $5 billion is still outstanding.

IMPACT OF TAKEOVERS ON BUSINESS LOAN GROWTH RATES[1]

	1981			1982	
	First Half	Third Quarter[2]	Fourth Quarter[2]	First Quarter[2]	Second Quarter[2]
Growth in total business loans at banking offices in U.S.	11.0	17.9	9.2	16.8	14.9
Excluding takeover loans	9.8	12.3	10.0	17.4	14.3
Growth in total business loans at banking offices in U.S. and foreign branches of U.S. banks	12.9	20.1	12.8	17.2	14.7
Excluding takeover loans	11.8[3]	16.4	11.9	17.4	13.7

1. Seasonally adjusted annual rates in percent.
2. Adjusted for estimated shifts of assets from domestic banking offices to International Banking Facilities.
3. Assumes that all $1.8 billion takeover loans in first half 1981 were booked in U.S. and were still outstanding at the end of June.

NET FUNDS RAISED IN CREDIT MARKETS BY SECTOR
(Quarterly data are seasonally adjusted annual rates)

Period	All sectors	Financial sector	Nonfinancial sectors						Memo: Change in Kaufman debt proxy[1]
			Total	Households	Domestic business	U.S. gov't.	State & local gov't.	Foreign	
	Flow in billions of dollars								
1979	476	82	394	171	147	37	18	20	261
1980	417	60	357	102	124	79	25	27	238
1981	467	80	387	107	149	87	22	24	274
1980-Q3	427	63	364	104	107	96	32	25	270
Q4	477	74	404	114	147	88	30	25	277
1981-Q1	462	45	417	120	106	128	30	33	306
Q2	537	120	417	129	186	43	23	36	268
Q3	512	142	370	110	169	56	12	23	300
Q4	359	14	346	55	135	121	27	7	277
1982-Q1e/	460	54	406	86	144	120	26	30	267
	Percent change in outstandings from previous period (annual rate)								
1979	12.7	21.1	11.7	14.7	12.9	6.0	6.7	12.4	11.3
1980	9.8	12.8	9.5	7.6	9.6	11.9	8.6	14.9	9.5
1981	10.1	15.0	9.4	7.2	10.6	11.8	7.2	11.7	10.5
1980-Q3	9.6	12.5	9.3	7.5	8.0	13.8	10.5	12.8	10.4
Q4	10.5	14.3	10.0	8.1	10.7	12.2	9.5	12.4	10.4
1981-Q1	9.9	8.5	10.1	8.3	7.5	17.3	9.3	15.7	11.2
Q2	11.3	22.0	9.9	8.8	13.0	5.6	6.9	16.6	9.5
Q3	10.4	24.6	8.6	7.3	11.5	7.2	3.7	9.8	10.4
Q4	7.1	2.2	7.8	3.6	8.9	15.1	8.2	2.9	9.4
1982-Q1e/	9.0	8.8	9.0	5.6	9.3	14.5	7.5	12.7	8.9

e/ Estimate.
1. The Kaufman "Debt Proxy" comprises all credit market instruments, deposits, and currency held by the private domestic nonfinancial sectors.

Source: Flow of Funds.

SOURCES AND USES OF FUNDS BY NONFINANCIAL CORPORATIONS
(Billions of dollars, seasonally adjusted annual rates)

					1981		1982	
		1979	1980	1981	Q3	Q4	Q1p	Q2 proj.
1.		Capital Expenditures	220.9	216.9	258.7	281.8	256.1	229.1	231.3
2.	less	U.S. Internal Funds & IVA[1]	175.5	184.3	221.8	227.6	225.1	227.1	239.1
3.	equals	Financing Gap[1]	45.4	32.6	36.9	54.2	31.0	2.0	-7.8
4.	plus	Net Acq. of Liquid Assets	17.7	13.1	12.9	1.0	14.8	18.2	34.6
5.	plus	Other Uses of Funds, Net[1]	41.7	60.5	57.4	66.2	46.4	96.5	87.3
6.	equals	External Financing Needs	104.8	106.2	107.2	121.4	92.2	116.7	114.1
7.		Net Funds Raised in Markets	104.8	106.2	107.2	121.4	92.2	116.7	114.1
		Net Equity Issues	-7.8	12.9	-11.5	-24.6	-23.0	-5.3	5.0
		Bonds	24.7	32.9	24.1	16.1	25.7	29.1	26.0
		Mortgages	22.6	20.7	21.5	18.0	16.6	14.4	14.6
		Loans & Short-term Paper	65.3	39.7	73.1	111.9	72.9	78.6	68.4
Memo:									
		Major Components of Line 5, "Other Uses of Funds, Net":							
8.		Total	41.7	60.5	57.4	66.2	46.4	96.5	87.3
		Uses:							
9.		Net Trade Credit	10.6	4.2	3.9	8.3	2.2	2.3	6.3
10.		Other Fin. Assets[2]	8.1	10.3	13.9	6.0	15.6	8.3	7.8
11.		Discrepancy	26.2	42.5	50.9	59.0	52.7	65.0	67.1
		Less Sources:							
12.		Net direct foreign investment in U.S.	3.2	3.2	18.9	14.1	40.9	12.4	7.2
13.		Net Change in Taxes Payable	--	-6.7	-7.6	-7.0	-16.8	-33.3	-13.3

p--preliminary.
1. Excludes net foreign earnings retained abroad.
2. Consumer credit and miscellaneous assets.

June 30, 1982

Source: Flow of Funds.

SELECTED HOUSEHOLD BORROWING
(Seasonally adjusted annual rates)

Period	Amount of Growth (billions of dollars)		Rate of Growth (percent)	
	Mortgage	Consumer Installment	Mortgage	Consumer Installment
1975	38.0	7.3	8.6	4.5
1976	61.5	21.0	12.9	12.4
1977	93.0	35.1	17.2	18.4
1978	107.6	41.9	17.0	18.5
1979	114.6	38.7	15.5	14.4
1980	83.4	2.6	9.7	0.9
1981	65.3	20.9	6.8	6.8
1981-Q1	78.2	24.1	8.3	7.8
Q2	78.3	25.3	8.2	8.0
Q3	64.3	27.8	6.6	8.7
Q4	40.5	6.3	4.1	1.9
1982-Q1	56.9	6.0	5.7	1.8
Apr.	n.a.	14.1	n.a.	4.3
May	n.a.	16.8	n.a.	5.0

INDICATORS OF HOUSEHOLD FINANCIAL CONDITION
(Seasonally adjusted)

Period	Debt Repayments as Percent of Disposable Income		Loan Delinquency Rates (percent)		Personal Bankruptcies (annual rates)	
	Consumer Debt	Consumer plus Mortgage Debt	Consumer[1] (at banks)	Mortgage[2] (at S&Ls)	Number of Cases	Percentage Change[3]
1975	15.8	19.8	2.61	1.45	231,047	19.4
1976	15.8	20.1	2.40	1.42	193,734	-16.1
1977	17.0	21.5	2.37	1.15	176,567	-9.0
1978	17.4	22.3	2.41	0.96	179,194	1.5
1979	17.4	22.5	2.43	0.88	210,875	17.7
1980	16.7	21.8	2.61	1.04	285,997	35.6
1981	15.8	20.8	2.38	1.28	310,869	8.7
1980-Q1	17.2	22.2	2.41	0.91	247,684	92.2
Q2	16.6	21.7	2.64	0.99	280,084	52.3
Q3	16.7	21.7	2.80	1.09	303,116	32.8
Q4	16.3	21.5	2.59	1.15	312,392	12.3
1981-Q1	16.3	21.4	2.49	1.16	318,268	7.6
Q2	16.2	21.2	2.36	1.21	303,696	-18.3
Q3	15.5	20.5	2.28	1.28	309,232	7.2
Q4	15.2	20.3	2.39	1.45	312,076	3.8
1982-Q1	15.1	20.4	2.37	1.61	319,968	10.1
Apr.	15.4	n.a.	n.a.	1.71	319,464	-69.0
May	15.6	n.a.	n.a.	1.79	286,524	-123.7

1. Percent of loans past due 30 days or more (American Bankers Association series).
2. Percent of loans past due 60 days or more (Federal Home Loan Bank Board series).
3. Annualized rate, not compounded.

SAVINGS AND SMALL TIME DEPOSIT
GROWTH AT THRIFTS[1/]
(Percent, SAAR, month-average data)

	Total	By Type of Institution			By Type of Account	
		S&Ls	MSBs	CUs	Savings	Small Time
1980-Q1	-0.2	0.7	-1.8	-3.4	-16.5	9.3
Q2	3.5	4.5	2.4	-1.4	-22.2	17.3
Q3	9.1	9.2	7.5	12.9	18.9	4.4
1981-Q1	2.8	2.3	1.8	9.3	-25.4	16.4
Q2	2.5	1.7	2.4	8.7	-7.1	6.3
Q3	1.2	2.4	0.1	-5.8	-22.9	11.4
Q4	1.5	1.2	1.0	4.2	-11.7	6.6
1981-Oct.	4.2	3.1	5.0	10.6	-8.4	9.0
Nov.	3.7	3.1	2.4	13.0	1.3	4.6
Dec.	0.2	-2.2	4.2	8.5	13.7	-4.8
1982-Jan.	-0.7	-2.5	-1.0	15.1	21.2	-8.9
Feb.	3.5	3.3	-1.1	16.0	-2.1	5.6
Mar.	5.8	5.4	-1.5	26.3	2.4	7.1
Apr.	4.7	4.2	1.0	16.2	-0.6	6.6
May	11.1	10.2	9.6	21.3	3.3	14.0
June[P]	1.9	1.4	0.5	9.2	-3.2	3.9
Memo: Deposit Levels-June 1982						
		---------- Billions of Dollars ----------				
	699.1	485.3	147.9	65.8	189.9	509.2

p--preliminary.
1. Quarterly data are derived by averaging month-average data and then computing growth rates.

FLOWS INTO SELECTED SMALL TIME
DEPOSIT ACCOUNTS
(Billions of dollars, month end data, NSA)

	S&Ls and MSBs				Commercial Banks			
	MMCs	SSCs	ASCs	IRA/[1/] Keogh	MMCs	SSCs	ASCs	IRA/[1/] Keogh
1980-Q1	41.3	9.0	--	--	35.5	4.2	--	--
Q2	5.9	23.2	--	--	13.2	11.6	--	--
Q3	-8.8	17.3	--	--	-1.9	8.3	--	--
Q4	32.6	11.7	--	--	27.6	6.0	--	--
1981-Q1	15.5	8.6	--	--	19.6	2.7	--	--
Q2	9.8	3.4	--	--	14.0	2.0	--	--
Q3	-0.5	18.7	--	--	16.1	9.3	--	--
Q4	-24.9	23.0	24.3	--	-11.0	11.1	18.6	--
1981-Oct.	-15.0	10.9	19.8	--	-6.5	5.4	12.8	--
Nov.	-6.0	6.4	3.3	--	-3.1	3.8	4.1	--
Dec.	-3.9	5.7	1.2	0.3	-1.4	1.9	1.7	0.2
1982-Jan.	1.1	6.5	1.4	1.2	3.3	2.7	1.1	1.3
Feb.	2.1	4.2	0.9	0.8	4.5	2.6	0.7	1.1
Mar.	-0.8	6.2	1.1	1.0	3.9	3.6	1.0	1.3
Apr.	-1.6	3.7	0.8	1.4	2.9	3.2	0.7	2.6
May[P]	-2.9	2.2	0.6	0.4	0.4	2.1	0.5	0.8

1. Flows into the new 1-1/2 year or longer deregulated account.

SELECTED ACTIVITIES OF SAVINGS AND LOAN ASSOCIATIONS
(Seasonally adjusted)

	Net change in mortgage holdings 1/	Net change in mortgage backed securities 1/	Mortgage commitments		1/Net change in borrowings 2/	Liquidity ratio 3/
			Outstanding	New		
	Billions of dollars					--Percent--
1980-Q1	6.5	0.9	24.0	18.0	6.6	8.41
Q2	0.2	1.3	20.7	11.9	-4.1	8.98
Q3	9.8	2.8	28.0	26.6	1.9	8.94
Q4	11.4	1.9	27.3	22.1	4.6	9.41
1981-Q1	7.6	1.0	25.5	16.7	4.9	8.81
Q2	5.7	1.6	24.5	16.4	8.8	8.54
Q3	2.5	1.1	21.8	11.0	10.0	8.23
Q4	-1.2	2.2	23.1	12.3	-0.3	8.92
1981-Oct.	-0.3	0.4	21.6	3.4	-1.9	8.53
Nov.	-0.4	0.8	22.1	4.1	0.5	8.62
Dec.	-0.5	1.0	23.1	4.8	1.1	8.92
1982-Jan.	0.7	1.9	23.6	4.5	3.2	8.65
Feb.	0.4	2.2	23.3	5.0	3.1	8.81
Mar.	0.1	2.9	22.6	4.8	2.4	8.91
Apr.	-1.3	2.5	22.5	4.6	1.0	9.20
MayP	-0.7	1.4	22.5	4.6	2.4	9.26

1. All federally insured S&Ls.
1. Advances from FHLBs and other borrowings, which include RPs, loans from commercial banks, mortgage-backed bonds, commercial paper, and other miscellaneous borrowings at all operating S&Ls.
2. Cash and liquid assets as a percentage of the sum of savings capital and borrowings payable in one year or less for insured S&Ls. These S&Ls hold 98 percent of deposits at all operating S&Ls. Currently the minimum required ratio is 5 percent.

SELECTED ACTIVITIES OF MUTUAL SAVINGS BANKS

	Net change in mortgage holdings	Net change in mortgage backed securities 1/	Net change in borrowings 2/	Liquidity ratio 3/
	Millions of dollars			--Percent--
1980-Q1	360	692	776	6.73
Q2	-18	281	403	7.66
Q3	-195	852	-838	7.93
Q4	310	204	596	8.76
1981-Q1	161	148	179	8.53
Q2	-187	-3	1,803	9.31
Q3	-259	0	1,847	10.10
Q4	-395	-120	36	10.91
1981-Oct.	-159	85	-594	10.22
Nov.	-138	-186	-175	10.73
Dec.	-98	18	805	10.91
1982-Jan.	-139	37	-256	11.47
Feb.	-98	82	78	11.40
Mar.	-189	-292	209	11.33
Apr.	219	55	-160	12.17

1. Not seasonally adjusted.
2. Includes loans from banks, advances from FHLBs, repurchase agreements, and mortgage warehousing.
3. Cash and investments maturing within one year as a percentage of the sum of regular deposits plus borrowings and mortgage warehousing.

NUMBER OF ADVERSE ACTIONS ON CORPORATE SECURITIES

	Downgradings by Moody's[1]		Reductions and Omissions in Dividend Payments
	Long-term Debt[2]	Commercial Paper[3]	
1973	32	53	150
1974	70	156	325
1975	41	84	512
1976	35	34	231
1977	43	39	260
1978	34	28	209
1979	47	48	185
1980	69	61	249
1981P	75	75	362
1980-Q1	14	16	35
Q2	20	17	69
Q3	13	8	80
Q4	22	20	65
1981-Q1	22	14	73
Q2	18	9	87
Q3	11	33	84
Q4P	24	19	118
First six months			
1981	40	23	160
1982P	62	25	293

p. Preliminary.

Entries based on data provided by Moody's Investors Service.

1. Data indicate the number of changes. Some companies have had more than one change in a given period.
2. The number of changes on a corporation's highest ranking debt issue.
3. Withdrawals and terminations of ratings are also included.

NUMBER OF BUSINESS BANKRUPTCIES AND FAILURES

Period	Bankruptcy Filings[1]	Failures[2]	
	Total	Total	Per 10,000 Concerns[3]
Selected interwar years			
1920	n.a.	8,881	48
1921	n.a.	19,652	102
1922	n.a.	23,676	120
1923	n.a.	18,718	93
1924	n.a.	20,615	100
1925	n.a.	21,214	100
1926	n.a.	21,773	101
1927	n.a.	23,146	106
1928	n.a.	23,842	109
1929	n.a.	22,909	104
1930	n.a.	26,355	122
1931	n.a.	28,285	133
1932 (all time high)	n.a.	31,822	154
1933	n.a.	19,859	100
1934	n.a.	12,091	61
Selected postwar years			
1961 (postwar high)	15,241	17,075*	64*
1974	25,049	9,915	38
1975	34,549	11,432	43
1976	33,167	9,628	35
1977	31,784	7,919	28
1978	29,030	6,619	24
1979	30,831	7,564	28
1980	43,482	11,742	42
1981	48,000	17,000	n.a.[4]
1982-Jan.-Apr.p/	55,100	21,350	n.a.

p. Preliminary. Data for 1981 and 1982 are partially estimated by Federal Reserve, 1982 data are at seasonally adjusted annual rates.

1. The number of nonpersonal filings for protection under the various provisions of the U.S. Bankruptcy Code, as reported by the Administrative Office of the U.S. Courts. Joint petitions are excluded.

2. Business failure data are collected by Dun & Bradstreet, Inc. field representatives. Failures include: (1) all industrial and commercial enterprises that are petitioned into the Federal Bankruptcy Courts; (2) concerns which are forced out of business through such actions in the State courts as foreclosure or attachments with insufficient assets to cover all claims; (3) concerns involved in court actions such as receivership or reorganization; (4) voluntary discontinuances with known loss to creditors; and (5) voluntary compromises with creditors out of court, where obtainable. Data exclude railroads, banks, financial companies, holding companies, real estate and insurance brokers, amusement enterprises, shipping agents, tourist companies, and transportation terminals.

3. The failure rate per 10,000 business listed in the Dun & Bradstreet Reference Book.

4. Annual data are not yet available. The latest data are for July 1981 and indicate a failure rate of 66 for that month and 56 for the period January through June.

SELECTED FINANCIAL MARKET QUOTATIONS

	1982			
	Feb. Highs	May Lows	June Highs	July 19
Short-term rates				
Federal funds	16.36	13.27	14.98	12.10p[1]
1-month Commercial paper	15.73	13.10	14.89	12.34
3-month Treasury bills	14.57	11.50	13.19	11.06
3-month CDs	16.14	13.25	15.58	13.28
Bank Prime Rate	17.00	16.50	16.50	16.50
Intermediate- and long-term rates				
U.S. Treasury (constant maturity)				
3-year	15.16	13.60	14.98	13.73p
10-year	14.95	13.46	14.76	13.69p
30-year	14.80	13.08	14.26	13.34p
Corporate Aaa utility (recently offered)	16.34	15.17	16.19	15.87p[2]
Municipal Bond Buyer (general obligation)	13.13	11.82	12.63	12.36[3]
Primary Conventional Mortgages	17.66	16.63	16.87	16.88[2]
Stock Prices				
Dow Jones Industrial	852.55	819.54	816.88	826.10
NYSE Composite	68.17	64.54	68.28	63.54

1. Average for first 5 days of statement week ending July 21 is 12.62.
2. Rate for preceding Friday.
3. Rate for preceding Thursday.

Table 1

Selected Interest Rates

Percent

July 19, 1982

Period	Short-Term								Long-Term							
	federal funds	Treasury bills: secondary market 3-month	Treasury bills: secondary market 1-year	Treasury bills: auction 6-month	CDs secondary market 3-month	comm. paper 1-month	money market mutual fund	bank prime loan	U.S. government constant maturity yields: 3-year	U.S. government constant maturity yields: 10-year	U.S. government constant maturity yields: 30-year	corporate Aaa utility recently offered	muni-cipal Bond Buyer	home mortages: primary conv.	home mortages: secondary market FNMA auction	home mortages: secondary market GNMA security
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1981--High	20.06	16.72	15.05	15.85	18.70	18.33	17.32	20.64	16.54	15.65	15.03	17.72	13.30	18.63	19.23	17.46
Low	12.04	10.20	10.64	10.70	11.51	11.39	11.84	15.75	12.55	12.27	11.81	13.98	9.49	14.80	14.84	13.18
1982--High	15.61	14.41	13.51	14.36	15.84	15.56	13.89	16.86	15.01	14.81	14.63	16.34	13.44	17.66	18.04	16.56
Low	12.42	11.46	11.66	11.59	12.94	12.40	11.77	15.75	13.70	13.51	13.13	15.11	11.82	16.43	16.27	15.17
1981--June	19.10	14.73	13.22	13.95	16.90	17.34	16.92	20.03	14.29	13.47	12.96	14.81	10.67	16.70	16.17	15.02
July	19.04	14.95	13.91	14.40	17.76	17.70	17.04	20.39	15.15	14.28	13.59	15.73	11.14	16.83	16.65	15.76
Aug.	17.82	15.51	14.70	15.55	17.96	17.58	17.17	20.50	16.00	14.94	14.17	16.82	12.26	17.29	17.63	16.67
Sept.	15.87	14.70	14.53	15.06	16.84	15.95	16.55	20.08	16.22	15.32	14.67	17.33	12.92	18.16	18.99	17.06
Oct.	15.08	13.54	13.62	14.01	15.39	14.80	15.32	18.45	15.50	15.15	14.68	17.24	12.83	18.45	18.13	16.61
Nov.	13.31	10.86	11.20	11.53	12.48	12.35	14.33	16.84	13.11	13.39	13.35	15.49	11.89	17.83	16.64	15.10
Dec.	12.37	10.85	11.57	11.47	12.49	12.16	12.09	15.75	13.66	13.72	13.45	15.18	12.90	16.92	16.92	15.51
1982--Jan.	13.22	12.28	12.77	12.93	13.51	12.90	12.01	15.75	14.64	14.59	14.22	15.88	13.28	17.40	17.80	16.19
Feb.	14.78	13.48	13.11	13.71	15.00	14.62	13.11	16.56	14.73	14.43	14.22	15.97	12.97	17.60	18.00	16.21
Mar.	14.68	12.68	12.47	12.62	14.21	13.99	13.49	16.50	14.13	13.86	13.53	15.19	12.82	17.16	17.29	15.54
Apr.	14.94	12.70	12.50	12.86	14.44	14.38	13.74	16.50	14.18	13.87	13.37	15.44	12.59	16.89	--	15.40
May	14.45	12.09	11.98	12.22	13.80	13.79	13.49	16.50	13.77	13.62	13.24	15.24	11.95	16.68	16.27	15.30
June	14.15	12.47	12.57	12.31	14.46	13.95	n.a.	16.50	14.48	14.30	13.92	15.82	12.45	16.70	17.22	15.84
1982--May 5	15.53	12.57	12.39	12.78	14.31	14.25	13.59	16.50	14.06	13.87	13.39	15.29	12.04	16.78	--	15.59
12	14.97	12.32	12.05	12.24	13.82	14.01	13.75	16.50	13.70	13.51	13.13	15.31	11.82	16.63	16.27	15.17
19	14.67	12.27	12.07	12.19	13.92	14.00	13.65	16.50	13.78	13.58	13.25	15.17	11.96	16.67	--	15.26
26	13.70	11.53	11.66	11.68	13.49	13.29	13.29	16.50	13.66	13.59	13.20	15.20	11.99	16.63	--	15.18
June 2	13.43	11.79	11.86	11.59	13.52	13.25	12.94	16.50	13.86	13.81	13.50	15.39	12.13	16.65	--	15.57
9	13.60	12.13	12.17	12.12	13.81	13.42	13.02	16.50	14.03	13.96	13.70	15.59	12.40	16.70	--	15.58
16	14.24	12.20	12.39	12.50	14.10	13.75	13.05	16.50	14.29	14.13	13.80	16.11	12.63	16.71	--	15.85
23	14.17	12.70	12.94	13.03	15.00	14.29	13.01	16.50	14.89	14.63	14.18	16.19	12.62	16.73	17.22	16.14
30	14.81	13.01	12.98	13.42	15.25	14.61	13.17	16.50	14.91	14.65	14.13	16.03	12.58	16.87	--	16.05
July 7	14.47	12.59	12.78	12.98	15.13	14.57	13.14	16.50	14.74	14.47	13.96	15.80	12.47	16.93	--	15.95
14	13.18	11.88	12.20	11.97	14.13	13.54	13.28	16.50	14.17	14.04	13.60	15.87p	12.36	16.88	--	15.51
21																
28																
Daily--July 9	13.05	11.77	12.12	--	14.06	13.59	--	16.50	14.12	14.03	13.57	--	--	--	--	--
15	13.07	11.64	12.09	--	14.17	13.33	--	16.50	14.14	13.96	13.57	--	--	--	--	--
16	12.64	11.21	11.64	--	13.97	13.16	--	16.50	13.82	13.70	13.35	--	--	--	--	--
19	12.10 p	11.06	11.56	--	13.28	12.34	--	16.50	13.73 p	13.69 p	13.34 p	--	--	--	--	--

NOTE: Weekly data for columns 1, 2, 3, and 5 through 11 are statement week averages. Weekly data in column 4 are average rates set in the auction of 6-month bills that will be issued on the Thursday following the end of the statement week. Data in column 7 are taken from Donoghues Money Fund Report. Columns 12 and 13 are 1-day quotes for Friday and Thursday, respectively, following the end of the statement week. Column 14 is an average of contract interest rates on commitments for conventional first mortgages with 80 percent loan-to-value ratios made by a sample of insured savings and loan associations on the Friday following the end of the statement week. The FNMA auction yield is the average yield in a bi-weekly auction for short-term forward commitments for government underwritten mortgages; figures exclude graduated payment mortgages. GNMA yields are average net yields to investors on mortgage-backed securities for immediate delivery, assuming prepayment in 12 years on pools of 30-year FHA/VA mortgages carrying the coupon rate 50 basis points below the current FHA/VA ceiling.

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THE RECENT FAILURES OF TWO GOVERNMENT SECURITIES DEALERS AND A COMMERCIAL BANK HAVE HAD LIMITED IMPACTS ON THE MONEY MARKET

1. Following the Drysdale Government Securities and Comark episodes, market participants reported a noticeable contraction in the available supply of RP funds. This contraction is said to have affected primarily small dealers, who have had to pay substantially more for financing than large dealers.
2. In spite of the developments in the RP market, the cash market for government securities--especially that maintained by the primary dealers--has continued to function essentially normally in recent weeks. Bid-ask spreads have not widened, trading volume has been well maintained, Treasury auctions have been conducted routinely, and open market operations have been carried out without hindrance.
3. Following the announcements by certain large commercial banks that they would suffer substantial losses on loans purchased from Penn Square Bank, several money market funds and other investors decided to stop purchasing CDs of these banks. In response, these banks stopped issuing CDs, but the largest banks reentered the market quite quickly. However, it appears that there is still reluctance on the part of some investors to purchase these instruments. There are conflicting reports regarding tiering in the CD market.

BUDGETARY DEVELOPMENTS

FEDERAL BUDGET "BASELINE" AND ALTERNATIVE INITIATIVES
(Billions of dollars, fiscal years)

	1981[a]	1982	1983	1984	1985
Baseline[1]					
Receipts	599.3	623.0	645.0	702.0	780.0
Outlays	657.2	742.3	825.7	916.6	1,011.0
Deficit	-57.9	-119.3[2]	-180.7	-214.6	-231.0
Net effect of initiatives recommended in February by the Administration[3]	--	+2.7	+54.0	+81.9	+96.1
Net effect of Congressional Budget Resolution[3]	--	--	+76.8	+130.7	+171.0
Deficits adjusted for Administration's February iniatives	-57.9	-116.6	-126.7	-132.7	-134.9
Deficits in the Congressional Resolution	-57.9	-105.7[2]	-103.9	-83.9	-60.0

a--actual.
1. Current services for all programs except defense; includes the Administration's defense proposals; evaluated at the Congressional revised baseline economic assumptions. This budget baseline is the one underlying the budget resolution.
2. Has not been adjusted for all the incoming data on actual receipts and outlays; these data would reduce the CBO's estimated deficit to about $110 billion to $115 billion. The Congressional Resolution contains revised estimates for receipts of $628.4 and outlays of $734.1 billion.
3. Components are shown on next page; plus sign reduces the deficit.
4. Components are shown on page after next.

ADMINISTRATION BUDGET INITIATIVES -- FEBRUARY BUDGET

Effects on unified budget surplus[1]
(Fiscal years, billions of dollars)

	1982	1983	1984	1985
I. REVENUE RAISING PROPOSALS IN 1983 BUDGET				
A. Tax Revisions[2]	0	7.2	13.5	13.5
B. Improved collection and Enforcement	.2	5.5	5.5	4.7
C. Other Initiatives (net)	.1	.2	.4	.1
D. Total of Receipts proposals	.3	12.8	19.3	18.3
E. Memo: Effect of 1981 Tax Act	-38.3	-91.6	-139.0	-176.7
II. NONDEFENSE SPENDING INITIATIVES IN 1983 BUDGET				
A. Entitlement reforms[3]	1.4	12.8	18.1	23.0
B. User fees (negative outlays)		1.2	2.1	2.2
C. Discretionary Programs	--	14.2	26.1	35.3
D. Management Initiatives	1.1	14.8	18.5	19.2
E. Proposed Spending Increases	-0.2	-1.8	-2.1	-2.7
F. Total: New Spending Proposals	2.4	41.2	62.6	77.8
G. Memo: Effect of 1981 Outlay Cuts	27.1	45.0	47.5	48.0
III. NET EFFECT OF NONDEFENSE INITIATIVES IN 1983 BUDGET				
A. 1983 Budget Proposals (ID + IIF)	2.7	54.0	81.9	96.1
B. 1983 Budget Proposals plus Initiatives Enacted in 1981	-8.5	+7.4	-9.6	-32.6
C. Memo: Increase in Defense from Level in Carter Budget	-2.8	-10.6	-14.7	-23.7

1. Minus sign denotes increase in the deficit; direct effects not taking into account any second round effects on either aggregate demand or supply.
2. Includes complete contract accounting, corporate minimum tax, and modified coinsurance.
3. Includes medical entitlements, cash welfare and nutrition assistance, and federal retirement and disability.

Source: Budget of the United States Government, Fiscal Year 1983 (February 1982)

CONGRESSIONAL DEFICIT-REDUCING INITIATIVES
(fiscal years, in billions of dollars)

	1983	1984	1985
Deficit-Reducing Measures:			
Revenue Increases	20.9	36.0	41.4
Spending Reductions			
Entitlement benefits (including COLA caps other than Social Security)	6.6	10.8	13.4
Other programs	1.2	1.3	1.1
Discretionary non-defense programs (appropriations freeze)	5.9	10.1	18.8
User fees (negative outlays)	1.1	1.4	1.7
Defense (except pay and retirement)	7.8	8.3	10.3
Federal pay limitations	5.1	8.9	12.1
Subtotal: reductions requiring legislative action	27.7	40.8	57.4
Management initiatives	13.7	17.1	15.8
Lower Interest Cost:			
From small deficits	6.5	17.7	28.6
From lower interest rates	8.0	19.1	27.8
Total Deficit Reduction	76.8	130.7	171.0
Memo: Remaining Deficits	-103.9	-83.9	-60.0
Baseline Deficits	-180.7	-214.6	-231.0

SENATE FINANCE COMMITTEE REVENUE RAISING BILL
(fiscal year 1983 impact in billions of dollars)

Depreciation limitations including reducing depreciation by 1/2 of investment tax credit	0.4
Limitations on safe harbor leasing	1.4
Reduce value of corporate tax preferences	0.7
Accelerated payments and other corporate tax provisions	5.0
Withholding of tax on interest and dividends	4.2
Double cigarette tax	1.2
Airport and airway tax increases	1.1
Increase federal unemployment tax	1.4
Other, including federal employee medicare tax, tightened pension provisions and minimum tax	1.4
Measures to tighten tax compliance	4.3
Total	21.1

NOTE: It is expected that this bill would be taken up in the Senate in July; the Ways and Means Committee has an August 1 deadline for reporting a revenue raising bill.

SUMMARY OF THE ECONOMIC RECOVERY ACT OF 1981

Reductions in Receipts[1]
(Fiscal years, billions of dollars)

	1982	1983	1984	1985	1986
Individual income tax	-28.2	-75.4	-113.1	-137.6	-173.5
(Marginal rate cuts)	(-25.3)	(-65.4)	(-96.9)	(-113.5)	(-131.5)
(Indexing)	--	--	--	(-5.3)	(-16.2)
(Saving incentives)	(-.5)	(-2.7)	(-4.3)	(-4.2)	(-6.5)
Corporate income tax	-9.3	-13.1	-21.6	-33.1	-48.1
(Accelerated cost recovery)	(-10.5)	(-16.5)	(-25.8)	(-37.1)	(-53.7)
Excise taxes[2]	-.9	-1.2	-1.2	-1.9	-2.6
Other	+.2	-1.8	-3.0	-4.1	-5.5
Total	-38.3	-91.6	-139.0	-176.7	-229.7

1. FY1983 Budget Assumptions.
2. Principally Windfall Profit Tax.

NOTE: Details may not sum to exact totals due to rounding.

RECONCILIATION OF THE FIRST BUDGET RESOLUTION AND JUNE/JULY GREENBOOK FY1983 DEFICIT
(Billions of dollars)

	1983
Budget resolution outlays	769.8
Smaller budget cuts	18.2
Economic assumption effects[1]	
Unemployment	3.4
Interest	6.0
SubtotaL economic assumption	9.4
Other estimating differences (includes effects of lower FRB inflation assumption)	-9.1
July Greenbook outlays	788.3
Budget resolution receipts	665.9
Smaller tax increases	-5.9
Effect of lower nominal income projections[1]	-37.7
July Greenbook receipts	622.3
Budget resolution deficit	-103.9
Policy assumption differences	-24.1
Economic projection differences	-47.1
Other estimating differences (net)	9.1
July Greenbook deficit	166.0

1. See page 27 for a comparison of the economic assumptions.

RECONCILIATION OF THE ADMINISTRATION[1] AND THE JUNE/JULY GREENBOOK FY1983 DEFICIT
(Billions of dollars)

	1983
Administration outlays	767.0
Smaller budget cuts for:	
Transfer payments	6.6
Grants	7.7
Purchases	.6
Other (subsidies, asset sales, debt collection etc.)	5.4
Defense cuts	-6.0
Subtotal: budget cuts	14.3
Economic assumption effects[2]	
Unemployment	8.0
Interest	6.4
Lower inflation assumption	-3.0
Subtotal: economic assumption	11.4
Other estimating differences	-4.5
July Greenbook outlays	788.3
Administration receipts	665.1
Larger tax increases	1.0
Effect of lower nominal income projection[2]	-43.8
July Greenbook receipts	622.3
Administration deficit	-101.9
Policy assumption differences	-13.3
Economic projection differences	-55.2
Other estimating differences (net)	+4.4
July Greenbook deficit	-166.0

1. The Administration's April budget revisions reflect only minor policy changes and some technical reestimates based primarily on the receipts and outlay experience up to the time of the revision. The underlying economic assumptions were not changed.
2. See page 27 for a comparison of the economic assumptions.

FEDERAL UNIFIED BUDGET AND GROSS NATIONAL PRODUCT
(Percent)

Fiscal Year	Budget Receipts as Percent of GNP	Budget Outlays as Percent of GNP	Deficit as Percent of GNP	High Employment Deficit as percent of Potential GNP[1]
1969	20.5	20.2	-0.4	1.3
1970	19.9	20.2	0.3	1.0
1975	18.9	21.9	3.1	1.9
1976	18.2	22.2	4.0	2.6
1977	19.1	21.5	2.4	1.8
1978	19.2	21.5	2.3	2.4
1979	19.7	20.9	1.2	1.6
1980	20.1	22.5	2.3	1.9
1981	21.0	23.0	2.0	1.0
1982e	20.3	24.2	3.4	1.6
1983e	18.9 (19.6)	24.3 (22.6)	5.3 (3.1)	3.1 (1.0)
1984e	18.5 (19.5)	24.3 (21.8)	5.7 (2.2)	4.1 (0.8)
1985e	18.9 (19.9)	24.5 (21.4)	5.6 (1.5)	4.4 (0.5)

e--Estimate from Congressional baseline budget and Congressional economic assumptions. The numbers in parentheses apply to the Congressional Budget Resolution.
1. High employment defined as 1 percentage point above the official CEA series --i.e. 5.6 percent in 1969, and approximately 6.1 percent from 1975 on.

BUDGET RESOLUTION DEFICITS AT 6.1% UNEMPLOYMENT
(fiscal years, billions of dollars)

1983	$36-1/2
1984	$33
1985	$22

FEDERAL BORROWING AND CREDIT MARKETS

Fiscal Years	Total funds raised by nonfinancial sectors[1]	Federal borrowing from the public	Federal borrowing as a percent of funds raised
	($ bil)	($ bil)	(%)
1972	152	19	12.8
1973	198	19	9.8
1974	187	3	1.6
1975	174	51	29.2
1976	242	83	34.3
1977	310	54	17.2
1978	379	59	15.6
1979	413	34	8.1
1980	342	70	20.6
1981	405	79	19.6
1982P	389	132	34.0

1. Nonfinancial sectors, excluding equities.
p--FR staff projection; for the last half of calendar 1982 federal borrowing is projected to rise to about 50 percent of net funds raised by nonfinancial sectors.

ADMINISTRATION[1] AND CONGRESSIONAL[2] LONG-RUN ECONOMIC ASSUMPTIONS
(Calendar years)

	1982	1983	1984	1985
Nominal GNP growth (% change, year over year				
Administration	8.1	11.5	10.2	9.7
Congressional	6.4	11.9	10.4	9.7
Real GNP growth (% change, year over year)				
Administration	0.2	5.2	5.0	4.7
Congressional	-0.9	4.5	4.1	3.7
Unemployment rate (annual average, %)				
Administration	8.9	7.9	7.1	6.4
Congressional	9.1	8.4	7.6	7.2
Inflation rate (% change, year over year, GNP deflator)				
Administration	7.9	6.0	5.0	4.7
Congressional	7.4	7.3	6.6	6.0
Interest rates (annual averages, %, 91-day bills)				
Administration	11.7	10.5	9.5	8.5
Congressional	12.0	10.7	8.8	6.9

1. Administration's February Budget.
2. First Concurrent Resolution on the Budget.

MILITARY SPENDING IN THE REAGAN BUDGET[1]
(Billions of dollars)

Fiscal Years	Budget Authority	Percent Change	Nominal Outlays	Percent Change	Real[2] Outlays	Percent Change
1977	108.4		95.6			
1978	115.3	6.4	103.0	7.7	n.a.	n.a.
1979	125.0	8.4	115.0	11.7	n.a.	n.a.
1980	142.6	14.1	132.8	15.5	174.3	n.a.
1981	178.4	25.1	156.1	17.5	181.4	4.1
1982e	214.1	20.0	182.8	17.1	195.4	7.7
1983e	257.5	20.3	215.9	18.1	215.9	10.5
1984e	284.7	10.6	247.0	14.4	233.2	8.0
1985e	330.9	16.3	285.5	15.6	255.6	9.6

1. Department of Defense - Military Spending.
2. In FY1983 dollars.
e--Estimated by OMB in Current Budget Estimates, April 1982, which were unchanged from February budget estimates

DEFENSE SPENDING INDICATORS

	Fiscal Years			Calendar Quarters				
	1979	1980	1981	81:Q1	81:Q2	81:Q3	81:Q4	81:Q1
Unified Budget ($ billions)								
Defense Outlays	115.0	132.8	156.1	38.2	40.0	41.3	44.1	44.1
Procurement	25.4	29.0	35.2	8.0	9.2	9.7	10.2	10.1
% Change from year earlier	27.0	14.2	21.3	10.2	21.1	37.9	23.3	26.3
	Calendar Years			**Calendar Quarters**				
	1979	1980	1981	81:Q1	81:Q2	81:Q3	81:Q4	81:Q1
NIPA Accounts ($ billions, annual rate)								
Federal Purchases for National Defense	111.2	131.7	154.3	145.2	148.2	154.1	169.7	169.7
Personal Compensation	48.8	52.8	59.4	57.4	57.8	58.4	64.0	64.7
Other Purchases	62.4	78.9	94.9	87.8	90.4	95.7	105.7	105.0
Durables	26.8	32.9	39.3	36.3	37.2	40.7	42.9	43.9
% Change from year earlier	19.2	22.8	19.5	15.2	15.2	23.7	22.9	20.9
Purchases as a Percent of GNP	4.6	5.0	5.3	5.1	5.1	5.2	5.7	5.7
Reports by Manufacturers' Defense Industries ($ billions)								
New Orders (annual rate)	40.5	55.9	62.5	62.5	57.3	71.2	58.9	93.2
Inventories[1]	8.6	11.0	13.6	12.0	12.7	13.0	13.6	14.4
Unfilled Orders[1]	53.5	68.4	80.9	72.4	74.7	79.6	80.9	90.5
% Change from year earlier	12.9	27.7	18.3	26.7	24.1	18.9	18.3	25.0
Shipments (annual rate)	34.4	41.1	49.9	46.3	48.1	51.4	53.9	54.7
% Change from year earlier	11.2	19.6	21.4	21.6	20.1	22.6	21.4	18.0
Inventories as Percent of Unfilled Orders	16.1	16.1	16.9	16.6	17.0	16.1	16.9	16.0
Defense Department ($ billions, annual rate)								
Gross Obligations Incurred	133.7	160.7	191.3	184.4	184.3	203.2	193.5	235.4
Military Prime Contract Awards	64.2	81.1	96.8	89.0	94.1	110.7	93.3	133.5
% Change from year earlier	3.7	26.3	19.4	22.2	15.9	36.4	4.9	50.0
Industrial Production (1967-100)								
Defense and Space Equipment	93.5	98.3	102.7	100.7	101.7	102.8	105.6	106.3

1. Inventories and unfilled numbers are end-of-quarter/year levels, not averages or changes.

JUNE GREENBOOK

FEDERAL SECTOR ACCOUNTS

June 23, 1982

	Fiscal Year 1981*	FY1982e/ Admin. 1/	FY1982e/ F.R. Board	FY1983e/2/ Admin. 1/	FY1983e/2/ F.R. Board	CY 1981*	CY1982e/ F.R. Board	FRB Staff Estimates, Calendar quarters; unadjusted data: 1981 IV*	1982 I*	1982 II	1982 III	1982 IV	1983 I	1983 II	1983 III
Unified budget receipts	599.3	628.4	622.2	665.1	622.3	619.1	617.7	146.0	143.6	183.7	148.9	141.5	140.9	186.8	153.1
Unified budget outlays	657.2	728.9	734.9	767.0	788.3	691.6	734.4	194.2	167.3	185.2	188.2	193.7	196.0	196.4	202.2
Surplus/deficit(-), unified budget	-57.9	-100.5	-112.7	-101.9	-166.1	-72.5	-116.7	-48.2	-23.7	-1.5	-39.3	-52.2	-55.1	-9.7	-49.1
Surplus/deficit(-), off-budget agencies[3]	-21.0	-20.9	-18.7	-15.8	-18.2	-22.4	-19.3	-3.6	-2.0	-5.5	-7.6	-4.1	-5.5	-4.3	-4.3
Combined deficit to be financed	-78.9	-121.4	-131.4	-117.7	-184.3	-94.9	-135.9	-51.8	-25.7	-7.0	-46.9	-56.3	-60.6	-14.0	-53.4
Means of financing combined deficit:															
Net borrowing form public	79.4	118.5	127.4	118.5	188.4	87.3	144.0	35.6	32.8	8.5	50.5	52.2	59.4	21.1	55.7
Decrease in cash operating balance	2.3		0.5		-2.0	0.3	0.0	6.7	-1.0	-0.5	-4.7	6.2	0.4	-4.0	-4.6
Other[4]	-2.8	{2.9	3.5	{-0.8	-2.1	7.3	-8.1	9.5	-6.1	-1.0	1.1	-2.1	0.8	-3.1	2.3
Cash operating balance, end of period	18.7	n.a.	18.2	n.a.	20.2	12.0	12.0	12.0	13.0	13.5	18.2	12.0	11.6	15.6	20.2
Memo: Sponsored agency borrowing[5]	35.7	46.6	21.6	50.1	28.5	30.0	25.1	4.0	1.6	8.7	7.3	7.5	7.0	7.0	7.0
NIA Budget								Seasonally adjusted annual rates							
Receipts	612.5	637.1	614.0	685.3	630.7	626.0	610.2	627.2	609.9	615.6	603.4	612.1	634.1	645.3	631.2
Expenditures	667.4	744.0	744.3	794.1	810.6	688.4	760.0	727.2	733.4	747.7	768.8	782.7	799.8	817.3	842.6
Purchases	217.8	252.4	252.3	278.4	267.5	230.2	256.4	253.3	253.6	250.0	252.3	259.3	263.7	270.1	276.9
Defense	147.1	174.2	173.7	203.5	195.8	154.3	179.3	169.7	169.7	175.5	180.0	186.5	191.5	198.6	206.6
Nondefense	70.7	78.2	78.5	74.9	71.7	75.9	77.1	83.5	83.9	74.5	72.3	72.8	72.2	71.5	70.3
All other expenditures	449.6	491.6	492.0	515.7	543.1	458.2	503.6	473.9	479.8	497.7	516.5	523.4	536.1	547.2	565.7
Surplus/deficit(-)	-54.9	-106.9	-130.3	-108.8	-179.9	-62.4	-147.9	-100.0	-123.5	-132.2	-165.4	-170.6	-165.7	-172.0	-211.4
High Employment (H.E.) surplus/deficit(-) evaluated at H.E. unemployment rate of:															
5.1 percent	-0.8	n.a.	-36.6	n.a.	-60.5	-2.8	-45.1	-24.8	-33.4	-29.4	-58.8	-58.9	-45.0	-46.7	-91.4
6.1 percent	-22.4	n.a.	-58.8	n.a.	-84.0	-25.0	-67.4	-47.2	-55.4	-51.6	-81.0	-81.7	-68.6	-70.7	-115.1

*--actual e--estimated n.a.--not available

1. OMB Current Budget Estimates, April 1982 and BEA NIA translations, April 1982.
2. In the First Concurrent Resolution on the Budget -- Fiscal Year 1983, the Congress recommended revenues of $665.9 billion and outlays of $769.8 billion.
3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and (beginning in FY1982) the Strategic Petroleum Reserve.
4. Checks issued less checks paid, accrued items and other transactions.
5. FRB staff estimates include Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage backed securities), Federal Land Banks, Federal Intermediate Credit Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis. FRB and Administration estimates are not stricly comparable.

NOTE: Quarterly figures may not add to yearly totals due to rounding.

BRIEFING NOTES

Uninsured Deposits

Amount uninsured	$251 million
Number uninsured	1082
Number of banks	20 (approximately)
Number of S&Ls	28 (approximately)
Number of credit unions	113 ($93 million)

Discount Window

Receiver's certificates issued	172
Discount window loans	1 ($670,000)
Applications made for discount window	2

Discount rate

Basic rate	1st 60 days
1% increase	next 90 days
1% increase	after 150 days

TABLE 1
GROWTH OF SELECTED CREDIT AGGREGATES AND GNP, 1970-1983
(Percentage changes on end-of-year basis)

Year	Credit Aggregates							Nominal GNP
	Total: all sectors	Total nonfinancial	Domestic nonfinancial	Private domestic nonfinancial	Kaufman "credit proxy"[1]	Bank credit[2]	"L"	
1970	8.0	7.3	7.4	8.3	6.9	8.0	6.7	4.9
1971	10.6	10.4	10.4	11.0	9.6	11.5	10.6	9.6
1972	11.7	10.9	11.0	12.6	12.0	14.8	13.3	11.5
1973	12.8	11.3	11.3	13.5	11.8	13.2	11.8	11.6
1974	10.7	9.8	9.4	10.7	9.0	10.2	9.3	7.1
1975	9.3	9.9	9.7	6.8	10.1	4.3	10.1	10.0
1976	11.3	11.5	11.1	10.0	10.8	7.8	11.2	9.3
1977	13.2	12.6	12.6	13.0	10.3	10.8	12.6	12.2
1978	14.5	13.4	12.8	13.7	11.0	13.5	12.5	14.2
1979	12.8	11.7	11.7	13.1	12.1	12.6	11.1	9.9
1980	10.7	10.3	10.0	9.6	10.2	9.1	10.0	9.4
1981	10.3	9.5	9.4	8.9	11.1	7.9	11.4	9.8
1982p	8.7	8.8	8.9	6.8	10.0	7.9	--	5.8
1983p	8.4	8.7	8.9	5.7	8.3	7.7	--	7.5

Note: Growth in credit aggregates defined as net changes in credit-market debt plus net new equities as a percent of credit-market debt outstanding at end of previous year. Credit-market debt outstanding not adjusted for changes in market valuation. Data include unpublished estimates of seller-financed mortgages. Source - Flow of Funds and Banking Sections.
p--projected.
1. Total of credit-market instruments, deposits and currency held by private domestic nonfinancial sectors.
2. Adjusted for breaks in series.

Table 4a
Credit Flows in Relation to Nominal GNP, 1970 to 1983
(annual average percentages)

	Credit Aggregates							
Year	Total All Sectors	Total Nonfinancial	Domestic Nonfinancial	Private Domestic Nonfinancial	Federal Govt. Debt	Kaufman "Credit Proxy"[1]/	Bank Credit[2]/	"L"
1970	12.1	10.2	9.9	8.7	1.2	6.5	3.3	5.2
1971	15.7	14.3	13.8	11.5	2.3	8.9	4.7	8.0
1972	17.3	14.9	14.5	13.2	1.3	11.1	6.1	10.2
1973	18.7	15.2	14.7	14.1	.6	11.0	6.7	9.1
1974	16.3	13.5	12.5	11.7	.8	8.7	4.6	7.4
1975	14.5	13.9	13.1	7.6	5.5	9.8	2.0	8.2
1976	17.3	15.9	14.8	10.8	4.0	10.4	3.4	9.0
1977	20.1	17.4	16.7	13.7	3.0	9.8	4.5	10.1
1978	22.1	18.5	17.0	14.5	2.5	10.3	5.6	10.0
1979	19.9	16.4	15.5	14.0	1.5	11.2	5.3	8.9
1980	17.4	14.8	13.7	10.7	3.0	9.7	4.0	8.2
1981	16.6	13.5	12.7	9.7	3.0	10.5	3.4	9.2
1982	14.6	13.1	12.5	7.8	4.8	10.0	3.4	n.a.
1983	14.1	13.1	12.7	6.4	6.3	8.5	3.3	

Note: Credit aggregates defined to include net changes in credit market debt plus net new equities. Data include unpublished estimates of credit flows attributable to seller-financed mortgages. Source - Flow of Funds and Banking Sections

p/ Projected

1/ Total of credit-market instruments, deposits and currency held by private domestic nonfinancial sectors.

2/ Adjusted for breaks in series.

For release on delivery
9:30 AM, E.D.T.
July 20, 1982

Statement by

Paul A. Volcker

Chairman, Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing, and Urban Affairs

United States Senate

July 20, 1982

Weekly export basis

Leverage limit of authority

1. damage to economy
2. depreciate valuation

83	84	85
130	200	300

Opportunity missed

Net cost effect of objectives

Too much burden on monetary policy

Target time even for events

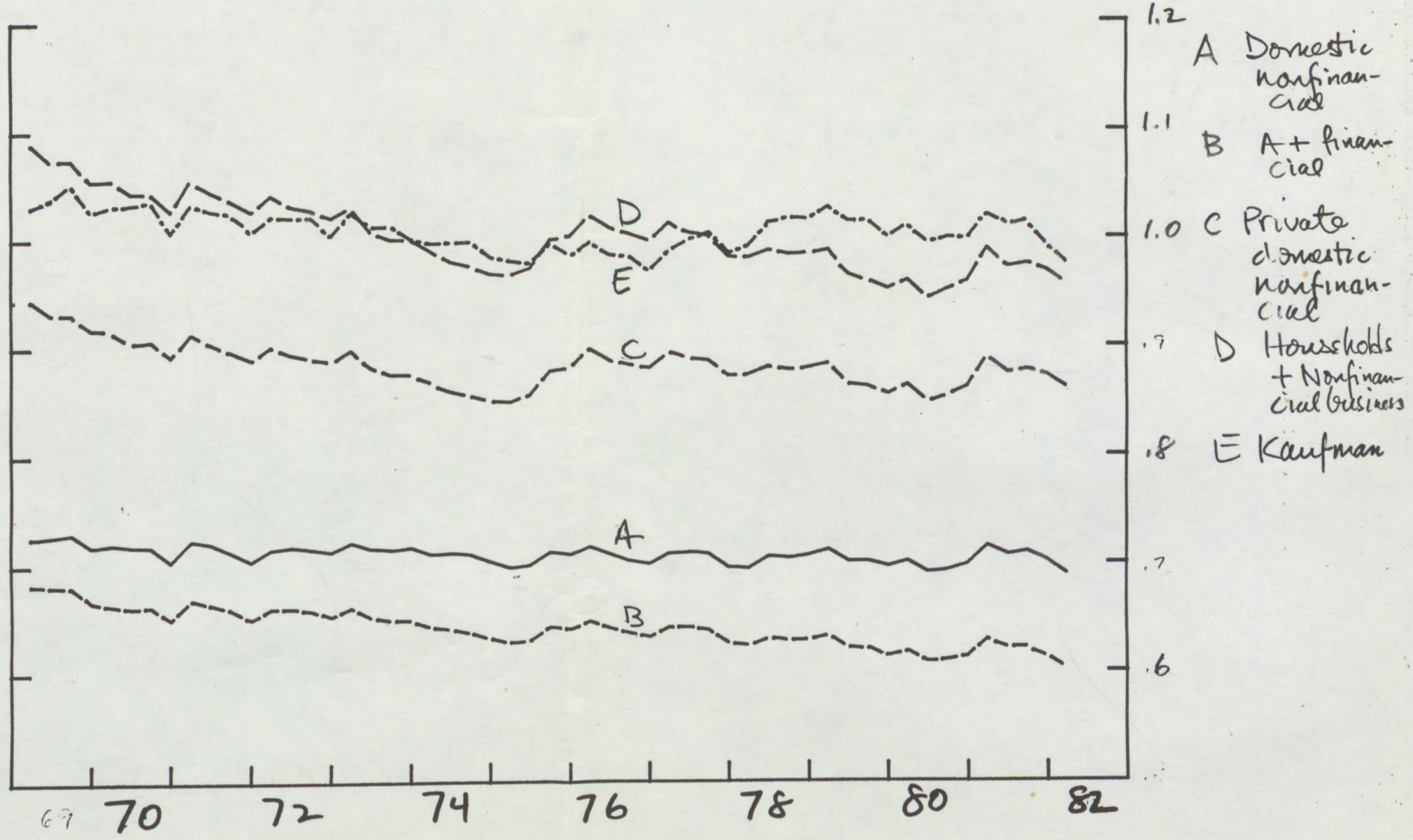
Foreign exposure

18-20%

Conduct explosion entirely

GNP

GNP / Credit



A Domestic nonfinancial

B A+ financial

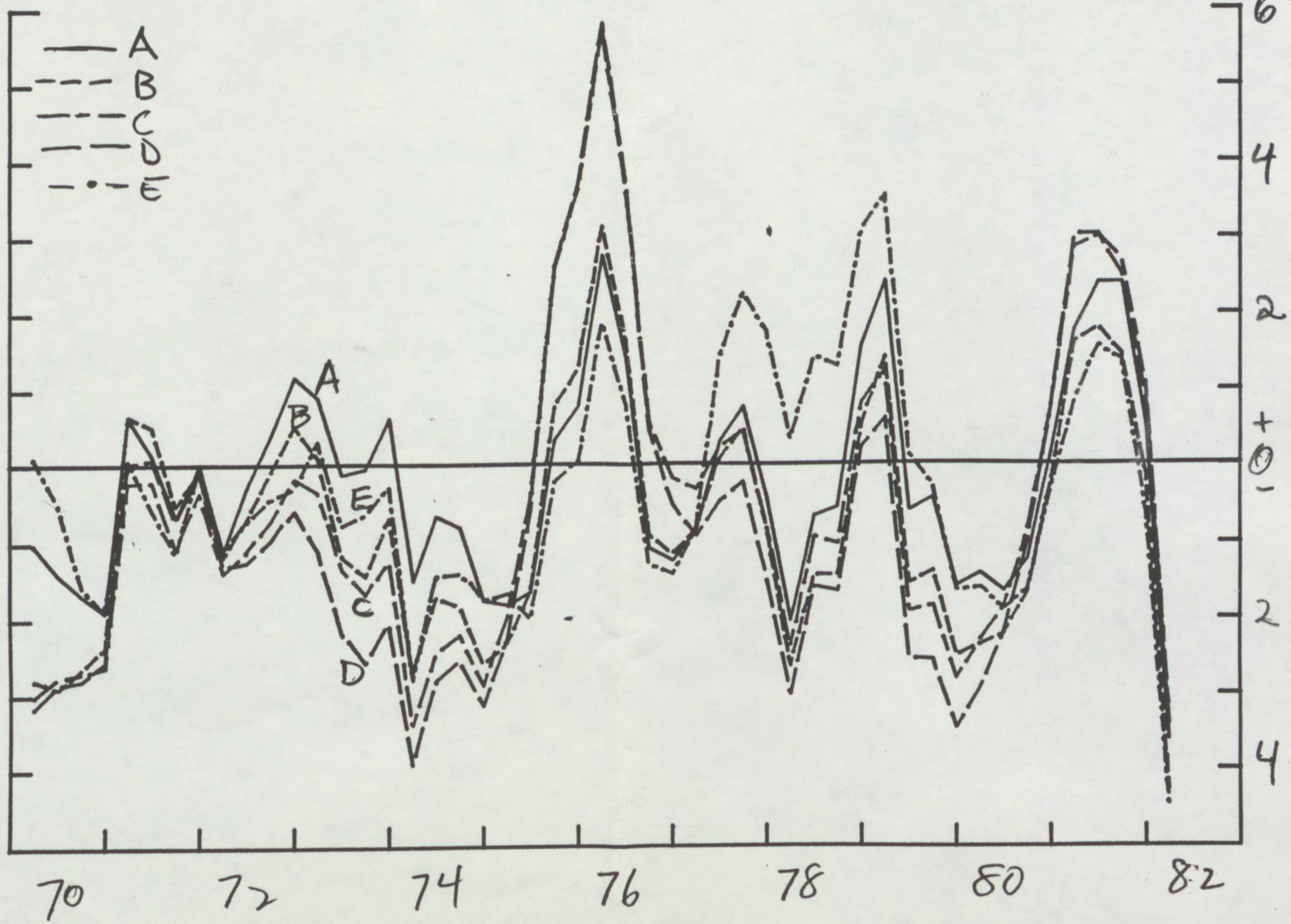
C Private domestic nonfinancial

D Households + Nonfinancial business

E Kaufman

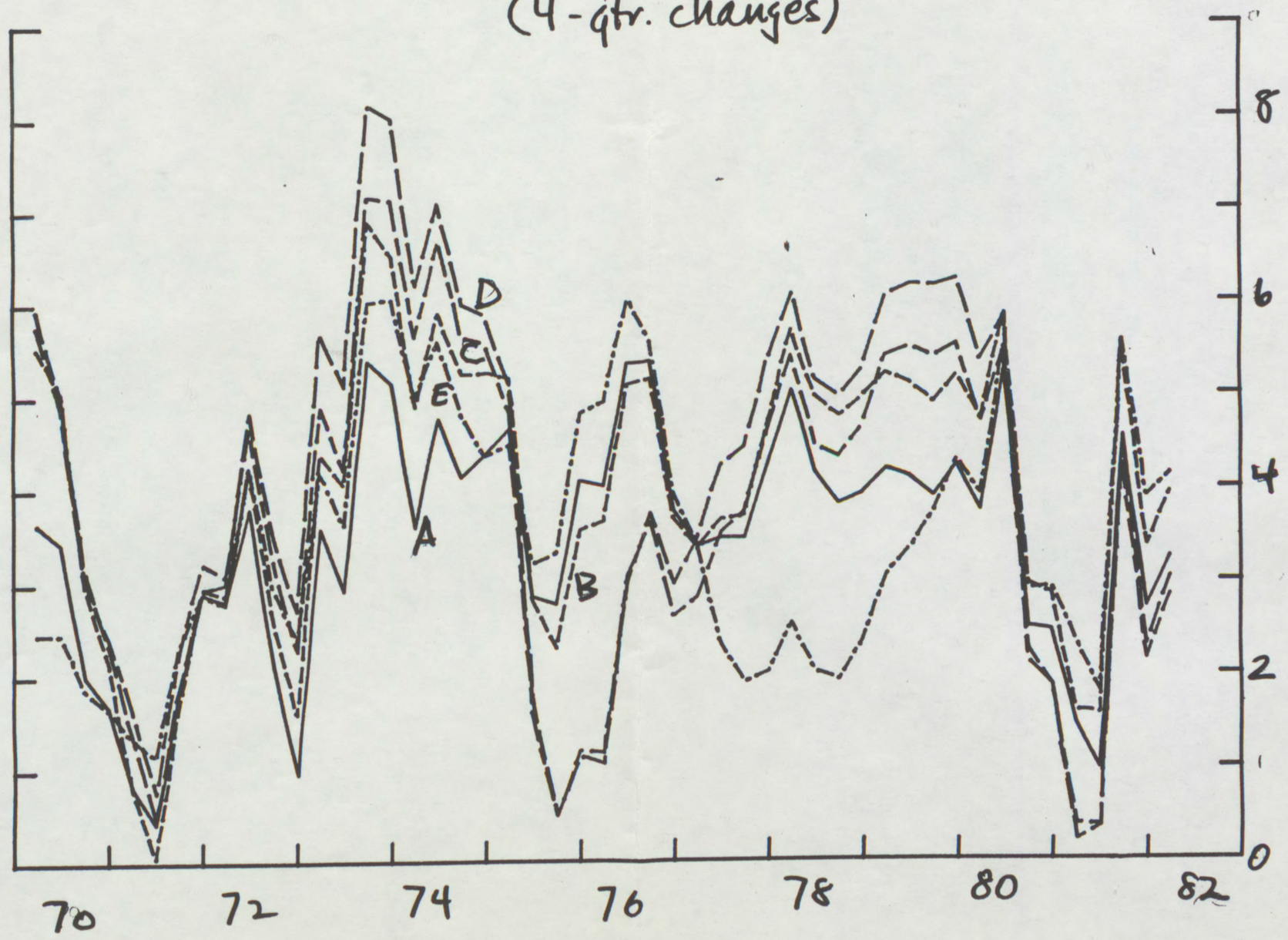
LGNP

%Δ GNP / Credit
(4-qtr changes)

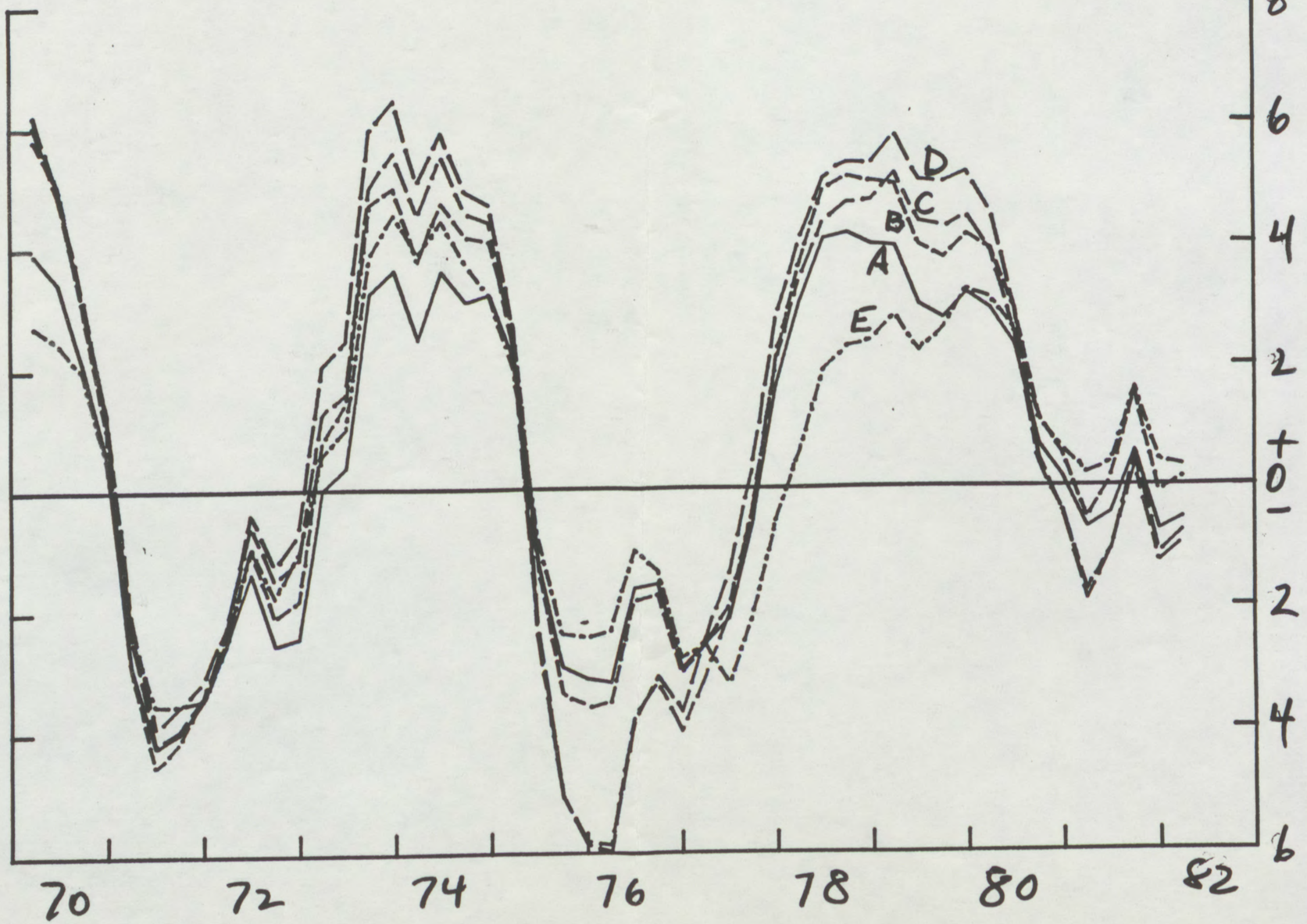


$\%\Delta \frac{\text{Credit}}{\text{MI}}$

(4-qtr. changes)



% Δ $\frac{\text{Credit}}{M2}$
(4-qtr changes)



% Δ $\frac{\text{Credit}}{\text{M3}}$
(4-qtr. changes)