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SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Producer Prices

The producer price index for finished goods fell 2.1 percent at an annual rate in November, reflecting sizable declines in the indexes for consumer foods and energy goods. In the food sector, prices at the finished goods level declined at a 12 percent rate, while prices at the farm level were unchanged. However, the index of crude food prices is expected to increase sharply in the December PPI as a result of recent advances in the prices of cattle and hogs. Prices of finished energy goods, which enter the PPI with a one month lag, fell at a 12.5 percent rate; price declines occurred as shipments of refined products fell, especially heating fuel. Excluding food and energy, consumer finished goods prices rose at 5.5 percent rate in November. Prices for capital equipment were unchanged last month, with favorable price performance across most categories.

RECENT CHANGES IN PRODUCER PRICES
 (Percentage changes at annual rates; based on
 seasonally adjusted data)¹

	Relative Importance Dec. 1982	1981	1982	1983			Oct.	Nov.
				Q1	Q2	Q3		
Finished goods	100.0	7.1	3.7	-4.7	3.0	2.5	3.8	-2.1
Consumer foods	23.7	1.4	2.1	4.1	.0	1.5	13.3	-11.8
Consumer nonfood	53.7	8.5	4.2	-11.2	4.8	3.2	-1.2	1.6
Energy items	13.2	14.1	-.1	-35.5	11.4	3.7	-1.7	-12.5
Other consumer goods	40.5	7.1	5.3	-2.0	3.1	2.9	-.5	5.5
Capital equipment	22.5	9.2	3.9	2.0	1.7	2.5	3.3	.0
Intermediate materials	100.0	6.0	.2	-4.0	3.3	6.6	3.4	1.5
Energy	16.4	11.1	-.7	-22.5	-2.6	11.6	10.2	-3.2
Foods and feeds	4.8	-12.9	.0	10.3	5.8	32.4	-13.3	-8.4
Other	78.8	6.6	.6	.8	2.9	4.0	2.0	4.0
Crude materials	100.0	-3.7	.4	2.9	6.0	5.6	-2.9	4.0
Energy	34.4	22.8	2.6	-9.2	-5.1	-1.5	-12.3	2.8
Foodstuffs and Feedstuffs	51.2	-14.0	1.5	18.1	.8	5.9	2.8	-.5
Other	14.4	-11.4	-7.6	-16.2	61.9	20.2	-3.6	20.3

1. Changes are from final month of preceding period to final month of period indicated; monthly changes are not compounded.

INDUSTRIAL PRODUCTION
(Percentage change from preceding period:
based on seasonally adjusted data)

	1983			1983		
	01	02	03	Sept.	Oct.	Nov.
	-----Annual rate-----			-----Monthly rate----		
Total	10.1	18.4	21.9	1.4	.8	.8
Final products	2.2	15.0	17.8	.9	.8	.6
Consumer goods	5.5	19.0	17.1	.7	.4	.2
Durable	29.7	37.0	29.7	2.1	-.4	-.2
Nondurable	-1.8	12.9	12.5	.3	.6	.3
Business equipment	-7.6	11.4	23.1	1.3	1.6	1.3
Defense and space equipment	9.8	5.0	10.2	1.3	1.1	1.0
Construction supplies	24.6	30.8	30.9	1.4	.5	.3
Materials	20.4	22.0	25.4	1.7	1.0	1.0
Durable goods	30.5	34.0	31.2	2.1	1.5	1.1
Nondurable goods	18.3	20.9	19.3	3.0	.8	.9
Energy materials	2.4	-2.5	20.9	-1.3	-.4	.7

CAPACITY UTILIZATION IN INDUSTRY
(Percent of capacity, seasonally adjusted)

	1978-80	1982	1967-82	1983	
	High	Low	Avg.	Oct.	Nov.
Total industry	87.3	69.6	82.4	78.7	79.2
Manufacturing	87.5	68.8	81.8	78.9	79.4
Durable	89.4	64.8	80.5	76.5	77.1
Nondurable	87.2	73.8	83.9	81.9	82.2
Mining	90.4	69.6	86.5	71.7	72.8
Utilities ¹	86.8	79.0	88.6	83.9	84.2
Industrial materials	88.9	66.6	83.3	79.4	80.0
Metal materials	95.4	46.2	82.2	68.5	69.7
Chemical materials	91.3	64.0	85.1	78.2	n.a.
Energy materials	88.9	78.5	88.5	81.2	81.6

1. The 1978-80 high is below the 1967-82 average because of the unusually slow growth in demand for electricity.

INTERNATIONAL DEVELOPMENTSU.S. Current Account

The U.S. current account was in deficit by a record \$48 billion at an annual rate in the third quarter, nearly \$10 billion annual rate larger than recorded in the second quarter. These data were virtually the same as projected in the December Greenbook.

The increase in the deficit in the third quarter was more than accounted for by a rise in the merchandise trade deficit. A sharp rise in imports, which largely reflected the recent pick-up in U.S. economic activity, more than offset a small increase in exports. The economic recovery in most major trading-partner countries continues to be sluggish and the persistent high level of the exchange value of the dollar continues to adversely affect the price competitiveness of U.S. goods.

U.S. CURRENT ACCOUNT
(Billions of dollars, SAAR)

	1982		1983			\$ Change 1983:3-1983:2
	Year	Q4	Q1	Q2	Q3	
<u>Current Account Balance</u>	<u>-11.2</u>	<u>-26.5</u>	<u>-14.3</u>	<u>-38.6</u>	<u>-47.9</u>	<u>-9.3</u>
Trade balance	-36.4	-45.4	-35.2	-58.6	-72.7	-14.0
Exports	211.2	193.4	198.0	195.7	202.3	6.7
Imports	247.6	238.8	233.3	254.3	275.0	20.7
Investment income, net	27.3	24.0	20.4	22.8	27.7	4.9
Direct, net	18.0	16.9	10.9	14.3	19.0	4.7
Portfolio, net	9.3	7.1	9.5	8.5	8.7	0.2
Military, net	0.2	- 0.1	2.1	0.5	-0.1	-0.6
Other services, net	5.7	4.7	4.7	4.0	5.4	1.4
Unilateral transfers	-8.0	-9.7	-6.2	-7.3	-8.2	-0.9
Memo Item:						
Statistical discrepancy in the BOP account	41.4	58.6	35.3	-2.6	-0.3	2.3

Partly offsetting the increasing trade deficit was a rise in net income receipts from U.S. direct investments abroad which reflected the pick-up in foreign economic activity.

The third-quarter statistical discrepancy was a small \$0.3 billion at an annual rate.

MONETARY AGGREGATES
(Based on seasonally adjusted data unless otherwise noted)¹

	1983						Growth from base period to Nov. 1983 ²
	Q1	Q2	Q3	Sept.	Oct.	Nov.	
----- Percentage change at annual rates -----							
Money stock measures							
1. M1	14.1	12.2	8.9	0.9	1.9	0.7	5.1
2. (M1) ³	(13.8)	(12.6)	(6.6)	(-0.5)	(4.7)	(6.7)	(5.6)
3. M2	20.3	10.1	7.8	4.8	9.3	7.8	7.9
4. M3	10.2	8.1	8.3	7.4	8.5	12.5	9.4
Levels in billions of dollars November 1983							
Selected components							
5. Currency	10.9	10.6	7.8	10.2	10.1	9.2	145.3
6. Demand deposits	2.7	4.0	4.6	-5.4	-2.5	-6.4	241.6
7. Other checkable deposits	46.2	30.6	19.4	1.9	0.0	3.8	126.4
8. M2 minus M1 (9+10+11+14)	22.4	9.4	7.5	6.0	11.6	10.1	1657.9
9. Overnight RPs and Eurodollars, NSA ⁴	35.1	46.4	-9.6	23.1	83.8	-21.2	55.7
10. General purpose and broker/dealer money market mutual fund shares, NSA	-57.5	-44.0	-11.2	-12.9	1.7	7.8	138.7
11. Commercial banks	57.8	16.5	12.3	10.1	13.1	14.9	710.1
12. Savings deposits, SA, plus MMDAs, NSA ⁵	296.1	62.4	10.1	4.0	3.4	8.0	360.3
13. Small time deposits	-48.5	-24.1	14.9	17.3	23.1	21.7	349.7
14. Thrift institutions	14.7	12.4	8.0	5.0	7.0	8.1	760.9
15. Savings deposits, SA, plus MMDAs, NSA ⁵	171.0	56.8	2.8	-6.9	-8.7	-11.7	325.1
16. Small time deposits	-51.0	-18.0	12.3	14.4	19.4	23.6	435.9
17. M3 minus M2 (18+21+22)	-36.5	-2.3	10.6	21.8	4.5	37.8	412.6
18. Large time deposits	-43.0	-0.5	13.8	23.5	8.3	20.6	325.4
19. At commercial banks, net ⁶	-49.9	-15.6	-4.4	2.1	-12.7	14.4	227.1
20. At thrift institutions	-14.6	55.4	71.9	80.4	63.4	33.9	98.3
21. Institution-only money market mutual fund shares, NSA	-32.7	-41.9	-14.9	21.9	24.6	21.1	40.6
22. Term RPs, NSA	19.4	31.2	0.0	8.0	-31.9	150.3	49.4

-- Average monthly change in billions of dollars --

MEMORANDA:

23. Managed liabilities at commercial banks (24+25)	-18.8	-0.2	-2.9	0.7	-8.8	19.8	377.5
24. Large time deposits, gross	-16.5	-4.3	-1.2	-0.9	-5.1	2.6	280.8
25. Nondeposit funds	-2.3	4.1	-1.7	1.6	-3.7	17.2	96.7
26. Net due to related foreign institutions, NSA	-4.8	2.4	1.2	0.4	-4.4	9.0	-46.9
27. Other ⁷	2.5	1.7	-2.9	1.4	0.6	8.2	143.6
28. U.S. government deposits at commercial banks ⁸	0.2	0.2	1.2	-4.1	5.2	-10.4	11.3

1. Quarterly growth rates are computed on a quarterly average basis. Dollar amounts shown under memoranda for quarterly changes are calculated on an end-month-of-quarter basis.

2. The base period for M1 is the second quarter of 1983. The base period for M2 is Feb./Mar. of 1983. The base period for M3 is the fourth quarter of 1982.

3. M1 seasonally adjusted using an experimental model-based procedure applied to weekly data.

4. Overnight and continuing contract RPs issued to the nonbank public by commercial banks plus overnight Eurodollar deposits issued by branches of U.S. banks to U.S. nonbank customers, both net of amounts held by money market mutual funds. Excludes retail RPs, which are in the small time deposit component.

5. Beginning December 1982, growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs declined during September, October, and November at rates of 8.7, 10.5 and 7.9 respectively. At thrift institutions, savings deposits excluding MMDAs declined during September, October, and November at rates of 3.3, 3.9 and 10.5 respectively.

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

7. Consists of borrowings from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase and other liabilities for borrowed money (including borrowings from the Federal Reserve and unaffiliated foreign banks), loans sold to affiliates, loan RPs and other minor items. Data are partially estimated.

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

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

	1983						Levels in bil. of dollars Nov. 1983 ^P
	Q1	Q2	Q3	Sept.	Oct.	Nov. ^P	
----- Commercial Bank Credit -----							
1. Total loans and securities at banks ²	10.7	9.9	8.6	4.9	9.9	13.9	1551.1
2. Securities	25.6	23.9	6.3	4.8	14.1	13.1	433.7
3. Treasury securities	61.1	53.5	13.3	17.2	36.6	25.7	186.2
4. Other securities	5.3	5.8	1.3	-3.4	-2.9	1.9	246.8
5. Total loans ²	5.7	4.8	9.5	4.9	8.3	14.1	1118.1
6. Business loans ²	3.9	-1.3	7.6	0.3	6.9	8.0	409.7
7. Security loans	-34.0	-5.3	25.1	36.5	75.9	47.6	26.2
8. Real estate loans	7.1	9.7	11.6	13.8	11.0	10.6	332.1
9. Consumer loans	6.3	10.3	15.8	12.8	24.8	18.7	215.4
----- Short- and Intermediate-Term Business Credit -----							
10. Business loans net of bankers acceptances	3.6	-0.4	7.4	0.9	5.2	9.0	401.1
11. Commercial paper issued by non- financial firms ³	-33.1	-23.5	5.4	18.8	21.1	15.2	46.4
12. Sum of lines 10 & 11	-0.4	-2.8	7.1	2.6	7.1	8.6	447.5
13. Line 12 plus loans at foreign branches ⁴	0.3	-2.2	6.9	3.8	9.9	8.3	465.7
14. Finance company loans to business ⁵	4.0	7.8	n.a.	31.2	34.5	n.a.	n.a.
15. Total bankers acceptances outstanding ⁵	-30.9	-7.3	n.a.	12.9	-27.1	n.a.	n.a.
16. Total short- and intermediate- term business credit (sum of lines 13, 14 and 15)	-3.1	-1.5	n.a.	8.7	8.7	n.a.	n.a.

p--preliminary

n.a.--not available.

1. Average of Wednesdays for domestically chartered banks and average of current and preceding ends of months for foreign-related institutions.

2. Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.

3. Average of Wednesdays.

4. Loans at foreign branches are loans made to U.S. firms by foreign branches of domestically chartered banks.

5. Based on average of current and preceding ends of month.

8
 SELECTED FINANCIAL MARKET QUOTATIONS¹
 (Percent)

	1982		1983				Change from:	
	Highs	FOMC Dec. 21	Spring lows	FOMC Oct. 4	FOMC Nov. 15	FOMC Dec. 15	Spring lows	FOMC Nov. 15
<u>Short-term rates</u>								
Federal funds ²	15.61	8.69	8.48	10.00	9.42	9.52	1.04	.10
Treasury bills								
3-month	14.57	7.90	7.96	8.65	8.78	9.17	1.21	.39
6-month	14.36	8.01	7.97	8.86	8.94	9.29	1.32	.35
1-year	13.55	8.11	7.95	9.00	9.06	9.31	1.36	.25
Commercial paper								
1-month	15.73	8.48	8.17	9.05	9.14	9.88	1.71	.74
3-month	15.61	8.43	8.13	9.02	9.14	9.85	1.72	.71
Large negotiable CDs ³								
1-month	15.94	8.59	8.26	9.13	9.25	9.93	1.67	.68
3-month	16.14	8.62	8.26	9.18	9.42	9.95	1.69	.53
6-month	16.18	8.78	8.29	9.36	9.59	10.15	1.86	.56
Eurodollar deposits ²								
1-month	16.36	9.44	8.68	9.38	9.45	10.10	1.42	.65
3-month	16.53	9.56	8.71	9.48	9.75	10.18	1.47	.43
Bank prime rate	17.00	11.50	10.50	11.00	11.00	11.00	.50	0
Treasury bill futures								
Mar. 1984 contract	13.55	9.32	8.37	9.29	9.30	9.65	1.28	.35
Sept. 1984 contract	11.48	9.80	8.71	9.77	9.88	10.15	1.44	.27
<u>Intermediate- and long-term rates</u>								
U.S. Treasury (constant maturity)								
3-year	15.16	9.87	9.36	10.82	10.96	11.27	1.91	.31
10-year	14.95	10.54	11.12	11.46	11.70	11.96	.84	.26
30-year	14.80	10.53	10.27	11.47	11.72	11.99	1.72	.27
Municipal revenue (Bond Buyer index)	14.32	10.81 ⁴	9.21	10.00 ⁴	10.18 ⁴	10.56	1.35	.38
Corporate--Aaa utility Recently offered	16.34	11.96e	11.03	12.38e	12.60e	12.90p	1.87	.30
S&L fixed-rate mort- gage commitment ⁵	17.66	13.63 ⁵	12.55	13.65 ⁵	13.47 ⁵	13.38 ⁵	.83	-.09
	<u>1982</u>		<u>1983</u>			<u>Percent change from:</u>		
	Lows	Highs	FOMC Oct. 4	FOMC Nov. 15	FOMC Dec. 15	1983 highs	FOMC Nov. 15	
<u>Stock prices</u>								
Dow-Jones Industrial	776.92	1248.30	1236.69	1247.97	1236.79	-.9	-.9	
NYSE Composite	58.80	99.01	96.24	95.49	93.52	-5.5	-2.1	
AMEX Composite	118.65	246.38	229.41	219.38	219.59	-10.9	.1	
NASDAQ (OTC)	159.14	328.91	294.81	278.92	275.35	-16.3	-1.3	

1. One-day quotes except as noted.

2. Averages for statement week closest to date shown.

3. Secondary market.

4. One-day quotes for preceding Thursday.

5. One-day quotes for preceding Friday.

e--estimated. p--preliminary.