

October 29, 1986

## **SUMMARY AND OUTLOOK**

---

Prepared for the Federal Open Market Committee  
By the staff of the Board of Governors of the Federal Reserve System

October 29, 1986

CONFIDENTIAL - FR  
CLASS II FOMC

## STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
	9/17/86	10/29/86	9/17/86	10/29/86	9/17/86	10/29/86	9/17/86	10/29/86	9/17/86	10/29/86
<b>Annual changes:</b>										
1984 <1>	10.5	10.5	6.4	6.4	4.0	4.0	3.8	3.8	7.5	7.5
1985 <1>	6.2	6.2	2.7	2.7	3.7	3.7	3.3	3.3	7.2	7.2
1986	5.4	5.3	2.7	2.6	2.8	2.6	2.6	2.6	7.0	7.0
1987	5.6	5.2	3.0	2.6	2.9	2.8	2.5	2.5	6.6	6.8
<b>Quarterly changes:</b>										
1985 Q1	<1>	6.8	6.8	3.1	3.1	4.2	4.2	3.7	3.7	7.3
Q2	<1>	5.8	5.8	2.3	2.3	3.6	3.6	3.3	3.3	7.3
Q3	<1>	6.8	6.8	4.1	4.1	2.8	2.8	2.5	2.5	7.2
Q4	<1>	5.8	5.8	2.1	2.1	4.0	4.0	3.6	3.6	7.0
1986 Q1	<1>	6.2	6.2	3.8	3.8	2.5	2.5	2.5	2.5	7.1
Q2	<1>	3.0	2.6	.6	.6	1.9	1.7	2.5	1.8	7.2
Q3	<1>	5.2	5.7	3.0	2.4	2.7	2.5	2.0	3.6	6.9
Q4		5.4	3.9	3.8	3.0	2.4	2.0	1.5	.7	6.8
1987 Q1		5.8	5.6	2.9	2.7	3.2	3.3	2.8	2.9	6.7
Q2		6.0	5.8	3.0	2.7	3.2	3.3	2.9	3.0	6.9
Q3		6.0	5.6	3.0	3.0	3.2	2.9	2.8	2.6	6.6
Q4		6.3	5.9	3.0	3.0	3.3	3.0	3.2	2.8	6.6
<b>Two-quarter changes: &lt;2&gt;</b>										
1985 Q2	<1>	6.3	6.3	2.7	2.7	3.9	3.9	3.5	3.5	.1
Q4	<1>	6.3	6.3	3.1	3.1	3.2	3.2	3.1	3.1	-.3
1986 Q2	<1>	4.6	4.3	2.2	2.2	2.3	2.1	2.5	2.1	.2
Q4		5.3	4.8	3.4	2.7	2.5	2.2	1.7	2.1	-.4
1987 Q2		5.9	5.7	3.0	2.7	3.2	3.3	2.9	2.9	-.2
Q4		6.1	5.8	3.0	3.0	3.3	2.9	3.0	2.7	.0
<b>Four-quarter changes: &lt;3&gt;</b>										
1984 Q4	<1>	8.5	8.5	4.6	4.6	3.9	3.9	3.6	3.6	-.1.3
1985 Q4	<1>	6.3	6.3	2.9	2.9	3.6	3.6	3.3	3.3	-.2
1986 Q4		4.9	4.6	2.8	2.4	2.4	2.2	2.1	2.1	-.2
1987 Q4		6.0	5.7	3.0	2.8	3.3	3.1	2.9	2.8	-.2

&lt;1&gt; Actual.

&lt;2&gt; Percent change from two quarters earlier.

&lt;3&gt; Percent change from four quarters earlier.

October 29, 1986

CONFIDENTIAL - FR  
CLASS III FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(seasonally adjusted; annual rate)

	Units	Projection											
		1985				1986				1987			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q3	Q4
<b>EXPENDITURES</b>													
Nominal GNP	Billions of \$	4030.5	4087.7	4149.2	4175.6	4234.3	4274.5	4333.3	4394.8	4455.3	4519.5		
Real GNP	Billions of 82\$	3603.8	3622.3	3655.9	3661.4	3683.3	3710.6	3734.9	3760.3	3788.0	3816.6		
Real GNP	Percent change	4.1	2.1	3.8	.6	2.4	3.0	2.7	2.7	3.0	3.0		
Gross domestic purchases		4.6	4.0	3.0	3.6	3.5	.8	1.4	1.8	1.9	2.0		
Final sales		6.1	2.7	-1.3	3.4	4.6	.9	2.7	2.3	3.0	3.1		
Private dom. final purchases		4.8	3.4	.9	5.6	6.1	-2.3	1.6	1.6	2.0	2.1		
Personal consumption expend.		5.3	1.7	3.6	6.2	7.2	-2.7	2.3	2.3	2.1	2.1		
Durables		23.8	-11.1	-1.8	14.3	38.4	-24.5	1.3	1.2	1.7	1.8		
Nondurables		1.2	1.6	6.5	8.0	.8	1.2	2.3	2.4	2.0	2.1		
Services		3.2	6.0	3.2	2.6	3.5	2.4	2.6	2.5	2.2	2.2		
Business fixed investment		.1	12.5	-15.1	-.9	.3	.0	-.1	1.7	1.8	1.7		
Producers' durable equipment		2.6	18.7	-17.0	19.6	4.4	1.7	1.3	4.0	4.0	4.0		
Nonresidential structures		-4.6	.3	-10.8	-35.2	-9.3	-4.1	-3.8	-4.1	-4.0	-4.3		
Residential structures		11.7	3.4	11.0	14.5	7.2	-1.7	-3.9	-6.4	1.9	3.7		
Exports		-5.8	8.2	7.1	-9.8	15.4	9.9	11.9	10.2	13.4	13.4		
Imports		.3	23.3	.2	15.8	20.0	-7.6	-.2	1.3	2.7	2.8		
Government purchases		13.9	10.0	-12.3	9.7	3.6	3.4	.6	.5	1.5	1.4		
Federal		26.0	22.7	-27.5	11.0	.5	5.7	-.8	-1.3	.7	.4		
Defense		15.8	-4.7	-1.0	19.0	.8	6.7	2.4	.3	.9	.8		
State and local		5.1	.3	2.6	8.7	6.1	1.5	1.8	2.0	2.1	2.2		
Change in business inventories	Billions of 82\$	.7	-5.2	39.9	15.1	-4.5	14.8	14.8	18.5	18.6	18.5		
Nonfarm	Billions of 82\$	1.4	16.1	37.0	11.0	-5.0	18.5	15.0	19.5	19.5	19.6		
Net exports	Billions of 82\$	-113.8	-132.0	-125.9	-153.9	-164.6	-145.2	-134.1	-126.1	-116.9	-107.3		
Nominal GNP	Percent change	6.8	5.8	6.2	2.6	5.7	3.9	5.6	5.8	5.6	5.9		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	97.9	98.7	99.4	99.8	100.2	100.7	101.3	101.8	102.4	102.9		
Unemployment rate	Percent*	7.2	7.0	7.1	7.2	6.9	7.0	6.9	6.9	6.8	6.7		
Industrial production index	Percent change	1.8	2.0	1.2	-2.1	2.3	1.8	2.4	3.0	3.2	3.3		
Capacity utilization rate-mfg.	Percent*	80.1	79.9	80.0	79.5	79.8	79.7	79.8	79.9	80.0	80.2		
Housing Starts	Millions	1.69	1.77	2.00	1.91	1.76	1.67	1.62	1.63	1.66	1.69		
Auto sales	Millions	12.31	10.24	10.65	11.22	12.91	10.15	10.55	10.80	11.00	11.00		
Domestic	Millions	9.40	6.84	7.84	8.18	9.43	6.90	7.50	7.60	7.80	7.80		
Foreign	Millions	2.90	3.40	2.81	3.05	3.47	3.25	3.05	3.20	3.20	3.20		
<b>INCOME AND SAVING</b>													
Nominal personal income	Percent change	3.0	7.4	6.0	6.0	2.1	6.6	5.1	5.7	5.7	5.6		
Real disposable income	Percent change	-4.0	2.6	6.5	7.1	-2.2	2.6	3.1	1.8	1.9	2.0		
Personal saving rate	Percent*	4.2	4.4	5.0	5.1	2.9	4.1	4.3	4.2	4.1	4.1		
Corp. profits with IVA & CCAdj	Percent change	36.2	-13.7	16.0	-4.4	13.9	-6.7	-3.4	3.4	-.6	2.7		
Profit share of GNP	Percent*	7.4	7.0	7.1	7.0	7.2	7.0	6.8	6.8	6.7	6.6		
Federal govt. surplus/deficit	Billions of \$	-197.5	-217.6	-201.6	-238.1	-195.9	-189.9	-185.7	-176.8	-171.0	-164.9		
State and local govt. surplus		59.5	62.5	70.0	59.0	61.8	51.5	56.6	57.7	59.7	61.2		
<b>PRICES AND COSTS</b>													
GNP implicit deflator	Percent change	2.5	3.6	2.5	1.8	3.6	.7	2.9	3.0	2.6	2.8		
GNP fixed-weight price index		2.8	4.0	2.5	1.7	2.5	2.0	3.3	3.3	2.9	3.0		
Cons. & fixed invest. prices		2.7	4.3	1.6	.2	2.7	3.3	3.7	3.5	3.2	3.2		
CPI		2.6	4.3	1.5	-1.7	2.6	3.6	4.2	3.6	3.4	3.4		
Exc. food and energy		3.5	4.9	4.3	3.4	3.6	3.8	3.7	3.8	3.9	3.9		
Nonfarm business sector		2.2	-3.5	4.3	.5	.2	1.8	.2	.5	.8	1.0		
Output per hour		3.2	3.7	3.1	2.3	2.3	2.8	3.0	3.1	3.3	3.4		
Compensation per hour		1.0	7.4	-1.2	1.8	2.1	1.0	2.8	2.6	2.5	2.4		
Unit labor costs													

\* Not at an annual rate.

October 29, 1986

CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(seasonally adjusted; annual rate)

	Units	Projection									
		1979	1980	1981	1982	1983	1984	1985	1986	1987	
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	2508.2	2732.0	3052.6	3166.0	3405.7	3765.0	3998.1	4208.4	4425.7	
Real GNP	Billions of 82\$	3192.4	3187.1	3248.8	3166.0	3279.1	3489.9	3585.2	3677.8	3774.9	
Real GNP	Percent change*	.6	-.1	.6	-1.9	6.5	4.6	2.9	2.4	2.9	
Gross domestic purchases		-.4	-1.1	.8	-.8	8.4	5.9	3.9	2.7	1.8	
Final sales		2.2	-.2	.1	.3	3.7	4.4	4.0	1.9	2.8	
Private dom. final purchases		1.3	-1.7	-.3	.8	7.7	5.3	4.2	2.5	1.8	
Personal consumption expend.		1.4	-.1	.2	2.9	5.4	3.6	3.5	3.5	2.2	
Durables		-3.8	-5.6	-3.3	9.0	14.7	8.8	6.2	4.0	1.5	
Nondurables		.8	-1.4	.5	1.8	4.4	2.2	2.0	4.1	2.2	
Services		3.5	2.4	.9	2.3	3.9	3.3	3.9	2.9	2.4	
Business fixed investment		5.0	-4.8	5.6	-11.3	10.8	14.7	6.5	-4.1	1.3	
Producers' durable equipment		1.6	-6.5	2.2	-12.5	20.9	16.0	8.1	1.3	3.3	
Nonresidential structures		12.0	-1.8	11.7	-9.1	-4.8	12.1	3.3	-15.8	-4.0	
Residential structures		-7.2	-14.2	-22.4	4.9	38.1	5.3	7.8	7.6	-1.2	
Exports		13.7	.5	2.4	-13.8	5.8	5.5	-3.2	5.2	12.2	
Imports		3.4	-8.8	4.9	-5.9	23.8	16.5	5.8	6.5	1.6	
Government purchases		.1	1.0	2.9	3.8	-2.7	7.7	8.4	.8	1.0	
Federal		-.3	3.1	9.5	8.2	-8.1	14.2	14.3	-3.8	-.2	
Defense		3.3	3.1	7.6	8.8	5.1	6.8	5.9	6.1	1.1	
State and local		.4	-.3	-1.3	.6	1.5	3.1	3.7	4.7	2.0	
Change in business inventories	Billions of 82\$	15.0	-6.9	23.9	-24.5	-6.4	59.2	9.0	16.3	17.6	
Nonfarm	Billions of 82\$	10.4	-2.3	19.0	-23.1	-.1	54.3	10.9	15.4	18.4	
Net exports	Billions of 82\$	3.6	57.0	49.4	26.3	-19.9	-89.6	-108.2	-147.4	-121.1	
Nominal GNP	Percent change*	9.5	9.9	9.3	3.1	10.4	8.5	6.3	4.6	5.7	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	89.8	90.4	91.2	89.6	90.2	94.5	97.6	100.0	102.1	
Unemployment rate	Percent	5.8	7.1	7.6	9.7	9.6	7.5	7.2	7.0	6.8	
Industrial production index	Percent change*	.9	-.8	-1.0	-7.7	14.3	6.6	1.7	.8	3.0	
Capacity utilization rate-mfg.	Percent	84.6	79.3	78.3	70.3	74.0	80.5	80.1	79.8	80.0	
Housing Starts	Millions	1.72	1.30	1.10	1.06	1.71	1.76	1.74	1.83	1.65	
Auto sales	Millions	10.68	9.04	8.56	8.00	9.18	10.43	11.09	11.23	10.84	
Domestic	Millions	8.36	6.62	6.24	5.77	6.77	7.97	8.24	8.09	7.68	
Foreign	Millions	2.32	2.42	2.32	2.23	2.41	2.46	2.84	3.15	3.16	
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change*	11.4	12.0	9.2	5.3	7.8	8.4	6.1	5.2	5.5	
Real disposable income	Percent change*	.5	1.1	.7	1.0	5.1	4.2	1.9	3.4	2.2	
Personal saving rate	Percent	6.8	7.1	7.5	6.8	5.4	6.3	5.1	4.3	4.2	
Corp. profits with IVA & CCAdj	Percent change*	-10.7	-6.8	2.3	-19.1	70.1	6.6	7.8	4.2	.5	
Profit share of GNP	Percent	8.0	6.5	6.2	4.7	6.3	7.0	7.0	7.1	6.7	
Federal govt. surplus/deficit	Billions of \$	-16.1	-61.3	-63.8	-145.9	-176.0	-170.0	-198.0	-206.4	-174.6	
State and local govt. surplus		27.6	26.8	34.1	35.1	47.5	68.5	61.7	60.6	58.8	
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change*	8.9	9.9	8.7	5.2	3.6	3.6	3.3	2.1	2.8	
GNP fixed-weight price index		8.8	9.8	8.5	5.0	3.9	3.9	3.6	2.2	3.1	
Cons. & fixed invest. prices		9.5	10.1	8.2	4.4	3.3	3.6	3.4	1.9	3.4	
CPI		12.7	12.5	9.6	4.5	3.3	4.1	3.5	1.5	3.7	
Exc. food and energy		10.7	12.2	10.2	5.2	4.3	4.8	4.3	3.8	3.8	
Nonfarm business sector		-2.7	1.0	-.6	1.0	3.6	1.0	.2	1.7	.6	
Output per hour		9.7	10.9	8.3	7.3	3.3	4.3	3.9	2.6	3.2	
Compensation per hour		12.7	9.8	9.0	6.2	-.3	3.2	3.7	.9	2.6	
Unit labor costs											

\* Percent changes are from fourth quarter to fourth quarter.

October 29, 1986

**FEDERAL SECTOR ACCOUNTS**  
(Billions of dollars)

	Fiscal Year 1985*	Fiscal Year 1986*	FY1987e			CY 1985*	CY 1986e	1985 IV*	I*	II*	1986 III*	IV	FRB Staff Estimates		
			Admin <sup>1</sup>	FRB Staff			FRB Staff						I	II	III
Not seasonally adjusted															
Budget receipts <sup>2</sup>	734	769	831	825	745	785		177	180	215	198	193	191	237	204
Budget outlays <sup>2</sup>	946	990	975	1003	961	989		252	241	245	251	252	247	251	253
Surplus/deficit(-) <sup>2</sup> to be financed <sup>2</sup>	-212	-221	-144	-178	-216	-205		-75	-61	-30	-54	-59	-56	-14	-49
Means of financing deficit:															
Borrowing from public	197	236	144	173	224	204		91	37	51	58	59	35	24	55
Cash balance decrease	13	-14	0	1	-13	3		-14	19	-12	-7	3	13	-5	-10
Other	1	-1	0	4	5	-3		-2	5	-8	3	-3	8	-5	4
Cash operating balance, end of period	17	31	20	30	31	28		31	12	25	31	28	15	20	30
Memo: Sponsored agency borrowing <sup>4</sup>	20	13	n. a.	20	20	11		5	-2	5	5	3	5	6	6
Seasonally adjusted annual rates															
Receipts	771	810	890	865	787	823		806	800	808	828	855	856	869	879
Expenditures	963	1024	1033	1046	985	1029		1023	1002	1046	1024	1045	1042	1045	1050
Purchases	341	367	375	378	354	366		381	356	368	366	373	377	379	382
Defense	254	272	290	290	259	276		268	266	278	277	284	289	292	294
Nondefense	88	95	84	88	95	89		113	89	89	89	89	88	87	88
All other expend.	621	656	658	668	631	663		643	646	678	658	672	665	666	668
Surplus/deficit(-)	-191	-213	-143	-181	-198	-206		-218	-202	-238	-196	-190	-186	-177	-171
High-employment surplus/ deficit(-) evaluated at 6 percent unemp.	-151	-176	n. a.	-144	-159	-169		-181	-168	-199	-157	-151	-148	-139	-136

\*-actual

e--estimated

n. a. --not available

Note: Details may not add to totals due to rounding

1. Mid-Session Review of the 1987 Budget (August 1987). The Congressional Budget Office baseline estimates published in August indicated receipts of \$828 billion and outlays of \$1012 billion in FY1987.
2. Includes outlays formerly classified as off-budget (e.g. Federal Financing Bank and Strategic Petroleum Reserve) and social security receipts and outlays classified as off-budget under current law.
3. Checks issued less checks paid, accrued items, and other transactions.
4. Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (excluding participation certificates), Federal National Mortgage Association (excluding mortgage-backed securities), Farm Credit Banks, and Student Loan Marketing Association marketable debt. The Administration's definition of borrowing by these agencies is somewhat broader.

October 29, 1986

**Outlook for U.S. Net Exports and Related Items  
(Billions of Dollars, Seasonally Adjusted Annual Rates)**

	ANNUAL				1985				1986				1987			
	1985-	1986-P	1987-P		Q3-	Q4-		Q1-	Q2-	Q3-	Q4-P		Q1-P	Q2-P	Q3-P	Q4-P
<b>1. GNP Exports and Imports 1/</b>																
Current \$, Net	-78.9	-105.1	-103.2		-83.7	-105.3		-93.7	-104.5	-110.1	-112.0		-108.4	-105.0	-101.6	-97.7
Exports of G+S	369.7	373.4	420.7		362.3	368.2		374.8	363.0	373.5	382.2		396.6	410.9	428.5	446.8
Imports of G+S	448.6	478.5	524.0		446.0	473.6		468.5	467.5	483.7	494.4		505.1	516.1	530.2	544.6
Constant 82 \$, Net	-108.2	-147.4	-120.9		-113.8	-132.0		-125.9	-153.9	-164.6	-145.1		-134.0	-126.0	-116.7	-107.1
Exports of G+S	362.3	371.0	409.9		355.8	362.9		369.2	359.8	372.9	382.0		392.9	402.6	415.4	428.8
Imports of G+S	470.5	518.3	530.9		469.6	494.8		495.1	513.6	537.5	527.1		526.9	528.6	532.2	535.9
<b>2. U.S. Merchandise Trade Balance 2/</b>	-124.4	-147.5	-144.4		-126.7	-149.4		-145.8	-144.1	-148.0 <sup>P</sup>	-151.9		-149.2	-145.6	-143.0	-139.7
Exports	214.4	219.8	250.4		210.0	210.9		214.6	219.2	222.0 <sup>P</sup>	223.4		233.7	244.2	255.8	268.0
Agricultural	29.6	26.1	27.7		26.7	28.5		28.4	24.6	26.0 <sup>P</sup>	25.5		27.1	27.5	27.8	28.4
Non-Agricultural	184.8	193.7	222.8		183.3	182.4		186.2	194.5	196.0 <sup>P</sup>	197.9		206.6	216.7	228.0	239.7
Imports	338.9	367.3	394.8		336.7	360.3		360.5	363.3	370.0 <sup>P</sup>	375.3		382.9	389.8	398.9	407.7
Petroleum and Products	50.5	34.8	39.0		49.5	56.5		40.1	31.3	32.0 <sup>P</sup>	35.7		38.2	38.7	39.4	39.9
Non-Petroleum	288.3	332.5	355.8		287.2	303.8		320.4	331.9	338.0 <sup>P</sup>	339.6		344.7	351.1	359.5	367.8
<b>3. U.S. Current Account Balance</b>	-117.7	-144.3	-145.1		-113.8	-134.8		-136.2	-138.9	-146.8 <sup>P</sup>	-155.2		-149.1	-146.9	-143.8	-140.4
Of Which: Net Investment Income	25.2	18.4	10.6		33.0	37.0		26.1	21.2	14.8 <sup>P</sup>	11.6		10.4	10.2	10.8	10.9
<b>4. Foreign Outlook 3/</b>																
Real GNP--Ten Industrial 4/	2.8	2.6	2.7		3.0	2.4		-0.2	5.4	3.0	2.8		2.4	2.4	2.2	2.3
Real GNP--NonOPEC LDC 5/	3.6	3.6	4.1		3.3	3.5		3.6	3.8	4.0	4.1		4.2	4.2	4.1	4.0
Consumer Prices--Ten Ind. 4/	4.3	2.1	2.5		1.4	3.1		1.7	1.7	0.3	3.0		2.6	3.0	2.7	3.3

1/ Economic activity and product account data.

2/ International accounts basis.

3/ Percent change, annual rates.

4/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.

5/ Weighted by share in NonOPEC LDC GNP.

P/ Projected

October 29, 1986

## **RECENT DEVELOPMENTS**

---

**Prepared for the Federal Open Market Committee  
By the staff of the Board of Governors of the Federal Reserve System**

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS  
(Monthly rates, not seasonally adjusted, billions of dollars)

	1985 Year	1986 Q1	1986 Q2	1986 Q3P	1986 Aug.P	1986 Sept.P	1986 Oct.e
Corporate securities - total <sup>1</sup>	16.08	27.84	30.36	23.48	27.19	19.20	25.90
Public offerings in U.S.	12.93	23.82	26.27	20.26	24.12	15.70	22.90
Stocks--total <sup>2</sup>	2.96	4.46	5.71	4.38	5.82	3.00	4.40
Nonfinancial	1.61	2.20	2.84	2.09	2.44	1.60	2.20
Utility	.37	.65	.61	.51	.64	.30	.40
Industrial	1.24	1.55	2.23	1.58	1.80	1.30	1.80
Financial	1.35	2.26	2.87	2.29	3.38	1.40	2.20
Bonds--total <sup>1</sup>	9.97	19.36	20.56	15.88	18.30	12.70	18.50
Nonfinancial	5.21	9.99	12.27	8.17	9.83	6.30	4.50
Utility	1.51	3.30	4.30	5.04	5.57	2.70	2.50
Industrial	3.70	6.69	7.97	3.13	4.26	3.60	2.00
Financial	4.76	9.37	8.29	7.71	8.47	6.40	14.00
By quality <sup>3</sup>							
Aaa and Aa	2.35	5.45	6.32	3.72	5.87	1.95	7.20
A and Baa	4.58	7.72	6.10	5.04	7.23	3.60	3.80
Less than Baa	1.42	2.75	4.67	3.05	2.19	2.60	1.40
No rating (or unknown)	.34	.30	.36	.52	.24	.65	.30
Memo items:							
Equity-based bonds <sup>4</sup>	.70	1.16	1.26	.70	.76	.27	.40
Mortgage-backed bonds	1.28	3.14	3.11	3.55	2.77	3.90	5.80
Variable-rate notes	.87	.33	.60	.72	.32	.88	.80
Bonds sold abroad - total	3.15	4.02	4.09	3.22	3.07	3.50	3.00
Nonfinancial	1.26	2.04	2.07	.91	.72	.85	1.00
Financial	1.89	1.98	2.02	2.31	2.35	2.65	2.00

p--preliminary. e--staff estimate.

1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.

2. Includes equity issues associated with debt/equity swaps.

3. Bonds categorized according to Moody's bond ratings. Excludes mortgage-backed bonds.

4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.

**TREASURY AND AGENCY FINANCING<sup>1</sup>**  
 (Total for period; billions of dollars)

	1986				
	Q3P	Q4 <sup>e</sup>	Sep.P	Oct. <sup>e</sup>	Nov. <sup>e</sup>
<b><u>Treasury financing</u></b>					
Combined surplus/deficit(-)	-53.8	-59.0	-3.7	-26.8	-25.1
Means of financing deficit:					
Net cash borrowing from the public	57.6	58.6	22.3	4.6	36.3
Marketable borrowings/ repayments(-)	51.2	54.0	21.5	2.8	34.9
Bills	14.1	17.2	7.1	1.4	11.7
Coupons	37.1	36.8	14.4	1.4	23.2
Nonmarketable	6.4	4.6	.8	1.8	1.4
Decrease in the cash balance	-6.8	3.4	-21.0	20.5	-5.0
Memo: Cash balance at end of period	31.4	28.0	31.4	10.9	15.9
Other <sup>2</sup>	3.0	-3.0	2.4	1.7	-6.2
<b><u>Federally sponsored credit agencies, net cash borrowing<sup>3</sup></u></b>					
FHLBs	5.3	3.0	1.5	0.9	1.0
FNMA	5.8	4.5	1.6	1.5	1.5
Farm Credit Banks	-0.9	-1.0	-0.7	-0.4	-0.3
FHLMC	-0.3	-1.5	0.3	-0.6	-0.4
SLMA	0.6	0.5	0.1	0.2	0.1

p--preliminary. e--staff estimate.

1. Data reported on a not seasonally adjusted, payment basis.

2. Includes checks issued less checks paid, accrued items and other transactions.

3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

**CONFIDENTIAL (FR)**  
**CLASS III - FOMC**

**October 31, 1986**

**SUPPLEMENT**

**CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

**Prepared for the  
Federal Open Market Committee**

**By the Staff  
Board of Governors  
of the Federal Reserve System**

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

October 31, 1986

	1984:04 to 1985:04	02	03	1986 Aug.	Sept.	Oct. pe	Growth from Q4 1985 to Oct. 1986 pe
----- Percentage change at annual rates -----							
1. M1	11.9	15.8	17.4	20.8	9.9	15	14-1/2
2. M2	8.7	10.4	11.2	11.1	7.4	10	9
3. M3	7.7	9.0	10.1	8.9	8.8	6	9
Levels in billions of dollars Sept. 1986							
<u>Selected components</u>							
4. Currency	7.5	6.2	7.3	10.1	5.4	10	179.8
5. Demand deposits	8.6	15.2	14.4	14.6	1.6	5	292.2
6. Other checkable deposits	22.3	25.6	31.2	39.4	25.6	34	215.1
7. M2 minus M1 <sup>2</sup>	7.7	8.7	9.1	7.9	6.6	8	2047.5
8. Overnight RPs and Eurodollars, NSA	20.0	-2.3	28.3	41.8	-30.7	55	72.3
9. General purpose and broker/dealer money market mutual fund shares, NSA	9.3	27.3	13.8	3.6	11.4	29	202.2
10. Commercial banks	9.1	5.7	6.3	5.5	7.1	5	881.5
11. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	19.0	13.2	18.5	19.5	20.6	21	508.9
12. Small time deposits	-0.6	-3.1	-9.0	-12.6	-10.9	-18	372.6
13. Thrift institutions	5.1	7.3	5.9	4.1	1.2	2	892.6
14. Savings deposits, SA, plus MMDAs, NSA <sup>3</sup>	13.7	13.8	18.9	17.1	10.1	20	393.7
15. Small time deposits	-0.4	2.6	-3.7	-5.7	-5.7	-12	498.9
16. M3 minus M2 <sup>4</sup>	3.8	3.4	6.0	0.0	14.0	-9	683.9
17. Large time deposits	5.7	-1.8	-1.1	5.1	-2.1	-9	446.8
18. At commercial banks, net <sup>5</sup>	5.1	-8.8	-3.0	7.3	-2.6	-11	281.1
19. At thrift institutions	6.8	11.0	2.4	2.2	-2.2	-7	165.7
20. Institution-only money market mutual fund shares, NSA	11.1	39.2	30.9	51.1	53.5	3	84.4
21. Term RPs, NSA	-4.0	19.3	15.2	9.6	41.2	-5	78.4
22. Term Eurodollars, NSA	-4.9	6.1	-6.5	-9.1	36.8	-42	80.6

## -- Average monthly change in billions of dollars --

**MEMORANDA:**

23. Managed liabilities at commercial banks (24+25)	2.5	-5.5	3.9	5.9	4.0	-12	484.3
24. Large time deposits, gross	1.0	-2.6	0.7	4.2	-0.6	-3	342.0
25. Nondeposit funds	1.5	-2.9	3.2	1.7	4.6	-9	142.3
26. Net due to related foreign institutions, NSA	0.4	-1.7	-0.2	0.0	5.2	-8	-25.0
27. Other <sup>6</sup>	1.1	-1.2	3.4	1.8	-0.7	-1	167.3
 28. U.S. government deposits at commercial banks <sup>7</sup>	0.2	0.9	-0.8	-1.6	2.9	-3	16.0

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

2. Nontransactions M2 is seasonally adjusted as a whole.

3. Growth rates are for savings deposits, seasonally adjusted, plus money market deposit accounts (MMDAs), not seasonally adjusted. Commercial bank savings deposits excluding MMDAs increased during September and October 1986 at rates of 36.0 percent and 38 percent, respectively. At thrift institutions, savings deposits excluding MMDAs increased during September and October 1986 at rates of 15.6 percent and 25 percent, respectively.

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

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

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

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

p--preliminary

pe--preliminary estimate

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

	1986						Levels in bil. of dollars October <sup>P</sup>
	Q1	Q2	Q3p	Aug.	Sept.	Oct.P	
<b>Commercial Bank Credit</b>							
1. Total loans and securities at banks	9.3	3.9	13.0	13.8	11.5	3	2033.6
2. Securities	2.0	4.9	31.6	29.0	28.2	0	494.7
3. U.S. government securities	-5.3	7.9	28.1	23.1	13.2	18	298.6
4. Other securities	12.8	0.7	36.8	40.0	51.2	-26	196.1
5. Total loans	11.6	3.6	7.3	8.9	6.1	5	1538.9
6. Business loans	5.3	2.0	1.7	4.0	0.7	5	513.0
7. Security loans	102.7	-62.7	14.1	-16.1	-5.4	-112	39.9
8. Real estate loans	13.1	13.3	13.6	14.7	11.4	11	470.6
9. Consumer loans	11.0	6.7	5.6	4.7	7.4	5	310.1
10. Other loans	7.3	-1.6	8.4	19.4	9.5	13	205.3
<b>Short- and Intermediate-Term Business Credit</b>							
11. Business loans net of bankers acceptances	5.2	1.0	1.7	4.0	0.0	5	507.7
12. Loans at foreign branches <sup>2</sup>	0.0	-21.5	9.1	-19.9	13.5	-20	17.7
13. Sum of lines 11 & 12	5.1	0.2	2.0	3.2	0.7	4	525.4
14. Commercial paper issued by nonfinancial firms <sup>3</sup>	-14.4	-10.3	10.6	60.1	-5.6	25	87.3
15. Sums of lines 13 & 14	2.1	-1.3	3.2	10.9	-0.2	7	612.7
16. Bankers acceptances: U.S. trade related <sup>4,5</sup>	-6.2	16.3	2.4	-7.1	0.0	n.a.	33.4 (Sept.)
17. Line 15 plus bankers acceptances: U.S. trade related	1.7	-0.3	3.1	9.8	0.0	n.a.	642.6 (Sept.)
18. Finance company loans to business <sup>4</sup>	16.4	3.8	n.a.	5.3	n.a.	n.a.	159.5 (Aug.)
19. Total short- and intermediate-term business credit (sum of lines 17 & 18)	4.6	0.5	n.a.	8.9	n.a.	n.a.	801.9 (Aug.)

n.a.=not available.

p=preliminary

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

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

3. Average of Wednesdays.

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

5. Consists of acceptances that finance U.S. imports, U.S. exports and domestic shipment and storage of goods.

SELECTED FINANCIAL MARKET QUOTATIONS<sup>1</sup>  
(Percent)

Sh.	<u>Short-term rates</u>	1984	1985	1986			Change from:	
		Highs	March highs	April lows	FOMC Sept. 23	Oct. 30	April lows	FOMC Sept. 23
	Federal funds <sup>2</sup>	11.63	8.58	6.95	5.83	5.86	-1.09	.03
	Treasury bills <sup>3</sup>							
	3-month	10.67	8.80	5.77	5.25	5.18	-.59	-.07
	6-month	10.77	9.13	5.81	5.41	5.24	-.57	-.17
	1-year	11.13	9.25	5.79	5.49	5.38	-.41	-.11
	Commercial paper							
	1-month	11.42	8.94	6.42	5.78	5.69	-.73	-.09
	3-month	11.35	9.12	6.30	5.75	5.62	-.68	-.13
	Large negotiable CDs <sup>3</sup>							
	1-month	11.52	8.89	6.51	5.81	5.60	-.91	-.21
	3-month	11.79	9.29	6.39	5.81	5.60	-.79	-.21
	6-month	12.30	9.92	6.35	5.82	5.60	-.75	-.22
	Eurodollar deposits <sup>4</sup>							
	1-month	11.89	8.89	6.59	6.01	5.93	-.66	-.08
	3-month	12.20	9.58	6.55	5.96	5.94	-.61	-.02
	Bank prime rate	13.00	10.50	8.50	7.50	7.50	-1.00	--
In	<u>Intermediate- and long-term rates</u>							
	U.S. Treasury (constant maturity)							
	3-year	13.49	11.22	6.49	6.77	6.52	.30	-.25
	10-year	13.99	12.02	6.98	7.58	7.31	.33	-.27
	30-year	13.94	11.97	7.14	7.76	7.61	.47	-.15
	Municipal revenue <sup>5</sup> (Bond Buyer index)	11.44	10.25	7.55	7.57	7.30	-.25	-.27
	Corporate--A utility Recently offered	15.30	13.23	9.15	9.64	9.46	.31	-.18
	Home mortgage rates <sup>6</sup>							
	S&L fixed-rate	14.68	13.29	9.86	10.07	9.95	.09	-.12
	S&L ARM, 1-yr.	12.31	11.14	8.41	8.19	8.03	-.38	-.16
		1984	1985	1986	1986		Percent change from:	
		Lows	March lows	Record highs	FOMC Sept. 23	Oct. 30	Record highs	FOMC Sept. 23
	<u>Stock prices</u>							
	Dow-Jones Industrial	1086.57	1247.35	1919.71	1797.81	1878.34	-2.16	4.47
	NYSE Composite	85.13	102.46	145.75	135.60	140.26	-3.77	3.43
	AMEX Composite	187.16	222.28	285.19	262.65	264.62	-7.22	.75
	NASDAQ (OTC)	225.30	276.18	411.16	353.37	361.05	-12.19	2.17

1. One-day quotes except as noted.

2. Averages for two-week reserve maintenance period

cl to date shown. Last observation is the average to date for the maintenance period ending November 5, 1986.

3. Secondary market.

4. Averages for statement week closest to date shown.

5. One-day quotes for preceding Thursday.

6. One-day quotes for preceding Friday.  
e--estimate