

Economic events of 1986—A chronology

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1986 was a year of slow growth and moderate inflation, though both were slightly less than had been expected. However, the year contained an unusually large number of momentous events and developments, at home and abroad.

Oil prices declined sharply before staging a partial recovery as OPEC reasserted its power. The apartheid uproar caused most large U.S. corporations to pull out of South Africa. Governments changed hands in the Philippines and Haiti, and deep unrest was evident elsewhere. The Iraq-Iran war escalated. American aircraft attacked Libya. Hopes for a U.S.-Soviet arms pact were dashed as the Iceland Summit broke up.

The Democrats regained control of the Senate. The Administration's influence was undermined by the arms-for-hostages deal with Iran. The Chernobyl disaster deepened the shadow over nuclear energy. The U.S. space program was jolted by the Challenger tragedy.

Deficits in the federal budget and the nation's balance of trade set records. The dol-

lar declined further against other leading currencies. Interest rates declined to the lowest levels in eight years. The stock market soared. Comprehensive tax overhaul was enacted. The six-year program to deregulate bank deposits was completed. Turnover on the Federal Reserve Board was unusually high.

Large mergers made headlines, prominently in banking, the airlines, and communications. Financial restructurings, layoffs, and plant closings altered the profiles of large corporations. Bankruptcy filings were frequent. Revelations of insider stock trades brought action by regulatory authorities. Problem credits in agriculture and energy threatened many financial institutions. Labor unrest was highlighted by lengthy shutdowns at USX and Deere. Consumers continued to support the economy, while business investment slowed. Motor vehicle sales set a record, aided by costly sales incentives.

Despite the barrage of unsettling events, of a sort that preceded past recessions, the national economy plowed ahead with surprising aplomb. An informed consensus held that it could duplicate the feat in 1987, extending one of the longest expansions in history.

Jan 1 Social Security benefit payments rise by 3.1%. Tax base rises to \$42,000. Tax rate rises to 7.15%. (Benefits rise 1.3%, tax base rises to \$43,800, and tax rate remains unchanged on Jan 1, 1987.)

Jan 1 Regulatory minimum deposits eliminated for Super NOW accounts, money market deposit accounts, and 7- to 31-day time deposits. (See Apr 1.)

Jan 1 Spain and Portugal join European Economic Community (EEC), raising membership to 12.

Jan 7 International Harvester, now exclusively a truck manufacturer, changes name to Navistar.

Jan 7 Executive order bans trade with, and travel to, Libya.

Jan 10 Federal Reserve Board applies margin requirements to certain "junk" bonds.

Jan 10 McLean Trucking, nation's fifth largest motor carrier, files for bankruptcy.

Jan 13 Yield on 20-year Treasury bonds (constant maturity index) rises to 9.86%, high for the year. (See Aug 29.)

Jan 13 FHLMC begins purchase of second mortgages.

Jan 14 Three-month Treasury bills yield 7.48% (coupon equivalent), high for the year. (See Oct 8.)

Jan 15 Union Carbide buys back 55% of its own stock for \$3.3 billion to prevent takeover.

Jan 17 AT&T will close Teletype manufacturing facility in Skokie, IL.

Jan 17 Monsanto and Searle, merged in Oct 1985, will consolidate pharmaceutical research.

Jan 22 Dow Jones industrial stock average closes at 1502, low for the year. (See Dec 2.)

Jan 22 Supreme Court rules against Federal Reserve Board's attempt to stop spread of limited service banks.

Jan 23 Oil prices hit lowest level in 6 years, \$18 per barrel, after 2-month decline. (See Apr 1.)

Jan 27 Global Marine, offshore driller, files for bankruptcy.

Jan 28 Space shuttle Challenger explodes, killing all seven aboard.

Jan 29 Bank of Japan cuts its discount rate from 5 to 4.5%.

Jan 29 Richard Lyng named to succeed John Block as Secretary of Agriculture.

Feb 4 Administration's budget for fiscal 1987 shows deficit of \$143.6 billion, just under \$144 billion limit set by Gramm-Rudman.

Feb 6 Economic Report of the President projects 4% rise in GNP fourth quarter 1985 to fourth quarter 1986, and 3.8% rise in price deflator. (Both were somewhat high.)

Feb 7 Federal district court rules key section of Gramm-Rudman deficit reduction law to be unconstitutional because of authority given to Comptroller General. (Confirmed by Supreme Court Jul 7.)

Feb 7 Haitian dictator Jean-Claude Duvalier departs following unrest.

Feb 7 Wayne Angell and Manuel Johnson sworn in as members of Federal Reserve Board.

Feb 11 Kodak will cut employment by 10%. (One of many such announcements by large corporations in 1986.)

Feb 11 United Airlines takes over Pan American's Pacific routes.

Feb 11 United States Steel buys Texas Oil & Gas for \$3.0 billion in stock.

Feb 12 Farmers Home Administration ends two-year moratorium on foreclosure of farm loans, telling debtors to pay up or arrange new loans.

Feb 13 Japan will keep 2.3 million unit quota on auto exports to the U.S. for year starting Apr 1.

Feb 18 Eastern Airlines agrees to merger with Texas Air to create the nation's largest airline.

Feb 18 Farm Credit System reports \$2.7 billion loss for 1985 because of farm loan write-offs.

Feb 19 Federal Reserve Chairman Paul Volcker testifies on monetary targets for 1986: M2 and M3, 6-9%; M1, 3-8%. (See Jul 18.)

Feb 20 Alabama passes interstate banking law. (West Virginia follows, Mar 17; Minnesota, Mar 19; New Jersey, Mar 28; Mississippi, Apr 14; Missouri, Apr 30; Wisconsin, Apr 30; Oklahoma, May 7; Pennsylvania, Jun 25; Louisiana, Jul 2; Texas, Sep 23; California, Sep 26.)

Feb 25 Corazon Aquino becomes Philippine president after flight of Ferdinand Marcos.

Feb 28 Olaf Palme, Swedish Prime Minister, assassinated in Stockholm.

Mar 3 President's Commission on Organized Crime calls drug traffic "the most serious problem." (Second report, Mar 6, criticizes Teamsters Union.)

Mar 6 Fox Television buys 6 TV stations from Metromedia for \$1.5 billion in cash and stock.

Mar 7 Federal Reserve cuts discount rate from 7.5 to 7%, following similar cuts by Germany and Japan. Major U.S. banks cut prime rates from 9.5 to 9%. (See Apr 18, Jul 10, Aug 20.)

Mar 13 VA mortgage rate reduced from 10.5 to 9.5%, lowest since 1979. (See Nov 24.)

Mar 16 Reagan appeals for more aid to Contras fighting Sandinista government in Nicaragua.

Mar 16 French election shifts power to alliance of right wing parties. The presidency, held by socialist Francois Mitterrand, is not affected.

Mar 19 Federal Reserve Board issues Regulation D amendments preserving current treatment of money market deposit accounts and revising early withdrawal penalties to distinguish between transaction and time deposits for reserve requirement purposes.

Mar 21 Preston Martin, Vice Chairman of Federal Reserve Board, resigns, effective Apr 30.

Mar 21 Union Carbide agrees to pay \$350 million in claims resulting from 1984 poison gas disaster in Bhopal, India.

Mar 24 U.S. Navy sinks two Libyan patrol boats.

Mar 25 John Deere, largest farm equipment manufacturer, will reduce employment further.

Mar 25 Maytag will buy Magic Chef.

Mar 25 Turner Broadcasting buys MGM/UA for \$1.3 billion in cash and stock.

Mar 27 Federal Reserve Board implements limitations on daylight overdrafts.

Mar 27 Regulatory agencies relax capital and loan write-off standards for troubled agricultural and energy banks.

Mar 31 Bank One, Columbus, OH, issues first security backed by credit card receivables.

Apr 1 Regulatory deposit rate ceilings on passbook savings eliminated, ending 6-year deposit deregulation process. (See Jan 1.)

Apr 1 Public debt of the U.S. surpasses \$2 trillion.

Apr 1 Milk Termination Program requires participating farmers to slaughter or export their dairy herds.

Apr 1 Oil prices drop below \$10, low for the year, and down from \$28 in Nov 1985.

Apr 1 Occidental Petroleum buys MidCon gas pipelines for \$2.6 billion in cash and stock.

Apr 9 Caterpillar announces plan to cut costs an additional 5%.

Apr 10 Halley's comet, awaited 76 years, makes closest approach to earth, and proves to be a virtual no-show.

Apr 15 U.S. aircraft from bases in the United Kingdom and Navy carriers bomb Libyan bases.

Apr 16 Kohlberg Kravis Roberts buys Beatrice Cos. for \$6.2 billion in cash and stock.

Apr 18 Federal Reserve cuts discount rate from 7 to 6.5%. (See Mar 7, Jul 10, Aug 20.)

Apr 18 Titan rocket, rumored to carry a spy satellite, blows up shortly after liftoff, repeating failure of previous launch in Aug 1985.

Apr 19 Bank of Japan cuts its discount rate from 4 to 3.5%.

Apr 21 Dollar falls to 171 Japanese yen, low since World War II. (Dollar hits 152 yen, low for the year, on Sep 19.)

Apr 21 Consumer price index declined in both Feb and Mar, first 2-month decline since 1965. (Third consecutive drop in Apr was unmatched since 1949.)

Apr 21 Prime rate falls from 9 to 8.5%.

Apr 25 GMAC cuts auto loan rate to 5.9%. (See Aug 28.)

Apr 26 Fire and explosion at Chernobyl USSR nuclear power plant spreads radioactive fallout over large area of central Europe.

Apr 29 Cleveland Electric merges with Toledo Edison, becomes Centerior Energy.

Apr 29 Exxon offers early retirement plan to reduce employment and cut costs. (One of many such announcements by large firms.)

Apr 29 Aancor Holdings buys National Gypsum for \$1.6 billion in cash and debentures.

Apr 29 Federal Reserve Board approves merger of Wells Fargo and Crocker National, creating 10th largest commercial bank.

May 3 Delta rocket, carrying weather satellite, blows up shortly after lift-off.

May 7 Senate and House heavily reject Administration-proposed sale of arms to Saudi Arabia. (Reagan's veto of the resolution was upheld by one vote in Senate.)

May 9 Case-IH will close three farm equipment plants.

May 9 Mobil Oil freezes pay and hiring, plans staff cuts.

May 19 Federal Reserve Board announces new policy to deal with large discount window borrowings arising from computer and other operational problems.

May 21 U.S. and Canada begin negotiations on free trade agreement.

May 27 Supreme Court rejects appeal by Northern Indiana Public Service Co to recover cost of abandoned Baily nuclear power plant.

Jun 1 AT&T strike begins. (Settled Jun 26.)

Jun 5 Dennis Levine, a director of the acquisitions division of Drexel Burnham Lambert, pleads guilty to perjury, tax evasion, and securities fraud, and agrees to make restitution. Four others plead guilty to similar charges. (See Nov 14.)

Jun 6 Capital Cities Communications buys ABC broadcasting for \$3.5 billion in cash.

Jun 9 General Electric buys RCA for \$6.4 billion in cash.

Jun 24 Hunt brothers sue 23 banks, charging a conspiracy against the family.

Jun 24 Hawkeye Bancorp, Des Moines, and creditors announce repayment agreement which includes sale of 17 banks.

Jun 27 U.S. trade deficit for May includes first agricultural deficit in 20 years.

Jun 30 New York Financial Control Board, set up to monitor New York City finances in 1975, ends its surveillance.

Jun 30 Ralston Purina buys battery division from Union Carbide for \$1.4 billion in cash.

Jul 2 Supreme Court upholds affirmative action, 6-3, rebuffing Administration.

Jul 4 100th anniversary of the Statue of Liberty, restored and rebuilt, celebrated in massive ceremonies.

Jul 5 Alcoa strike ends after five weeks with wage freeze and benefit cuts.

Jul 7 United States Steel changes name to USX.

Jul 10 Federal Reserve reduces discount rate from 6.5 to 6%, lowest since Jan 1978. Prime rate falls to 8%. (See Mar 7, Apr 18, Aug 20.)

Jul 14 Comptroller of the Currency closes First National Bank and Trust Co. of Oklahoma City, second largest U.S. bank failure in history.

Jul 14 Hughes count of operating oil and gas rigs falls to 663, 43-year low and low for 1986, down from a peak of 4530 at the end of 1981.

Jul 17 Bank of America reports \$640 million loss for second quarter.

Jul 17 LTV Corp, second largest steel company, files for bankruptcy, largest industrial company ever to do so.

Jul 18 Federal Reserve releases mid-year Humphrey-Hawkins report: M2 and M3 targets for 1986 retained; M1 above target "acceptable." (See Feb 19.)

Jul 26 Southeast suffers extensive drought damage to crops, livestock, and poultry.

Jul 27 Interstate Commerce Commission rejects merger of Santa Fe and Southern Pacific railroads.

Jul 30 U.S. Treasury announces all its new marketable securities will be in book entry form.

Aug 1 Manuel Johnson confirmed as Vice Chairman of Federal Reserve Board. (See Feb 7, Mar 21.)

Aug 1 Administration offers to subsidize wheat exports to USSR. (Offer was refused.)

Aug 1 United Steelworkers strike USX, first time since 1959. (No settlement by Dec 31.)

Aug 6 House upholds veto of bill to limit textile and shoe imports. (But new agreements to limit textile imports are soon negotiated with several Pacific-rim nations.)

Aug 7 LTV Corp announces steel plant shutdowns and layoffs.

Aug 8 Caterpillar-UAW strike begins. (Settled Aug 28.)

Aug 12 Northwest Airlines buys Republic Airlines for \$0.9 billion in cash.

Aug 13 General Motors and Volvo White will combine heavy truck units.

Aug 16 House-Senate conferees approve draft of Tax Reform Act of 1986, cutting tax rates and curbing deductions. (Reagan signs bill Oct 22.)

Aug 19 Robert Heller sworn in as member of Federal Reserve Board.

Aug 20 Federal Reserve Board cuts discount rate from 6 to 5.5%, lowest in nine years. (See Mar 7, Apr 18, Jul 10.)

Aug 21 Federal debt ceiling raised from \$2.08 trillion to \$2.11 trillion. (See Oct 21.)

Aug 21 First Commodity Corp of Boston expelled from futures trading and fined for fraudulent activities at the Mid-America Commodity Exchange.

Aug 23 United Auto Workers strike three John Deere plants. (On Aug 25, Deere closes 10 additional plants in response to strike.)

Aug 26 Prime rate falls from 8 to 7.5%, lowest in almost nine years.

Aug 28 General Motors announces 2.9% auto financing and rebates to move excess inventories. (Other companies offer similar incentives.)

Aug 29 Yield on 20-year Treasury bonds falls to 7.12%, lowest since Oct 12, 1973, and low for 1986. (See Jan 13.)

Aug 29 Hunt brothers' Placid Oil Co files for bankruptcy.

Sep 4 Chicago & Northwestern and Illinois Central railroads will reduce staff.

Sep 7 Whirlpool will close plants in St. Joseph, MI.

Sep 11 Dow Jones industrial stock average drops a record 87 points to 1793. (Drop associated with program trading in stock futures and options.)

Sep 11 Government survey projects 2.5% decline in real capital spending by business for 1986. (See Dec 18.)

Sep 15 Government data show the U.S. ended 1985 a net international debtor, first time since 1919.

Sep 15 Heavy rains and flooding cause extensive crop losses in Michigan.

Sep 16 Burroughs buys Sperry for \$4.8 billion in cash and stock in largest computer-electronics merger. (Consolidated company named Unisys.)

Sep 16 Textron buys EX-CELL-O machine tools for \$1.0 billion in cash.

Sep 17 Senate approves William Rehnquist as Chief Justice and Antonin Scalia as Associate Justice of Supreme Court.

Sep 24 Farmers Home Administration moves to sell part of its loan portfolio, a first for a government agency.

Sep 25 Federal judge dismisses Senator John Melcher's suit challenging Federal Reserve Bank presidents' right to vote on Federal Open Market Committee.

Sep 29 Coca-Cola buys bottling companies from JTL for \$1.2 billion in cash.

Sep 29 U.S. journalist Nicholas Daniloff freed in complex deal with USSR.

Sep 29 Wieboldt Department Stores files for bankruptcy.

Oct 1 Burroughs to move up to 300 executives from Michigan to Blue Bell, PA, following Sep 22 merger.

Oct 1 PepsiCo buys Kentucky Fried Chicken for \$0.8 billion in cash.

Oct 2 Emmett Rice resigns from Federal Reserve Board, effective Dec 31.

Oct 2 Senate overrides Reagan's veto of bill to impose economic sanctions on South Africa to protest apartheid. (Follows similar House action.)

Oct 4 Flood waters crest after weeks of heavy rains in a band stretching from Oklahoma to Michigan.

Oct 6 May Department Stores buys Associated Dry Goods stores for \$2.4 billion in stock.

Oct 6 NHTSA reduces CAFE (corporate average fuel economy) requirement from 27.5 to 26 miles per gallon for auto model years 1987 and 1988.

Oct 6 Sales of cars and trucks in model year 1986, domestic and foreign, totaled record 16 million.

Oct 8 Three-month Treasury bills yield 5.18% (coupon equivalent), low for the year and lowest since Jul 1, 1977. (See Jan 14.)

Oct 12 Iceland summit meeting between Reagan and Soviet Premier Gorbachev ends with failure to achieve arms agreement.

Oct 16 U.S. announces 15% tariff on Canadian construction lumber. (Later replaced by Canadian export tax.)

Oct 16 FDIC plans to sell to the public 30% of its 80% ownership of Continental Illinois Corp.

Oct 20 IBM and General Motors will pull out of South Africa. (See Dec 30.)

Oct 20 Union Pacific buys Overnite Transportation trucklines for \$1.2 billion in cash.

Oct 21 Federal debt limit temporarily raised to \$2.3 trillion through May 15, 1987. (See Aug 21.)

Oct 22 Budget Reconciliation Bill for 1987 permits Farm Credit System to amortize loan writeoffs over 20 years.

Oct 22 General Motors reports operating loss in third quarter, partly reflecting cost of sales incentives.

Oct 23 In fiscal 1986, federal outlays totaled \$990 billion, revenues \$769 billion with record \$221 billion deficit. Farm programs hit record \$26 billion.

Oct 27 Ahmed Yamani, long-time Saudi Arabian oil minister, removed from office.

Oct 27 London security markets deregulated in the "Big Bang."

Oct 29 J. Henry Schroder Bank, subsidiary of Industrial Bank of Japan, buys Aubrey G. Lanston & Co.

Oct 30 St. Louis Globe-Democrat ceases publication.

Oct 31 USDA reports soybean prices lowest in 10 years, corn lowest in 14 years.

Nov 1 Minimum rate on EE Savings Bonds held five years falls from 7.5 to 6%.

Nov 1 Fire at Swiss warehouse results in spill of chemicals into the Rhine River causing massive fish kill.

Nov 3 U.S. agricultural exports in fiscal 1986 were lowest in 9 years, 40% below 1981 peak.

Nov 4 Election transfers control of Senate to the Democrats, 55-45. Democratic majority in House increases to 259-176. GOP gains eight governorships.

Nov 6 Amoco begins to phase out leaded gas completely.

Nov 6 General Motors plans to close 11 plants in the Midwest, 7 in Michigan.

Nov 6 Immigration Reform Act imposes heavy fines on those who hire illegal aliens.

Nov 7 Canada imposes duty on "heavily-subsidized" U.S. corn.

Nov 10 International Paper buys Hammermill Paper for \$1.1 billion in cash.

Nov 11 IBM will close Greencastle, IN, parts distribution center.

Nov 13 Reagan reports on controversial arms sales to Iran. (On Nov 25 he states he was not fully informed.) (See Dec 4.)

Nov 14 Ford ends COLAs for salaried workers, following GM and Chrysler.

Nov 14 Ivan Boesky pleads guilty to SEC charges of insider trading, agrees to pay \$100 million in fines. (See Jun 5.)

Nov 17 Omnibus Water Resources Development Act increases user fees and cost sharing with state and local governments.

Nov 18 House Majority Leader Jim Wright predicts comprehensive trade legislation in 1987.

Nov 20 Japan agrees to limit exports of machine tools to the U.S. to its 1981 market share.

Nov 24 VA reduces home mortgage rate from 9.5 to 9%, lowest since June 1978.

Nov 24 Kohlberg Kravis Roberts buys Safeway Stores for \$4.3 billion in cash, debentures, and stock.

Nov 30 Goodyear halts Sir James Goldsmith's takeover threat by paying him \$619 million for his shares.

Dec 1 U.S. imposes 0.22% "user fee" on all imports.

Dec 1 H. Ross Perot agrees to sell back holdings of General Motors stock and resigns from its board.

Dec 1 Chesebrough-Pond's agrees to purchase offer by Unilever N.V. of \$3.1 billion.

Dec 2 Dow Jones industrial stock average closes at 1956, high for the year, up 30% from Jan 22 low. (See Jan 22.)

Dec 3 MCI Communications will reduce labor force by 15%.

Dec 4 Baxter Travenol, following merger with American Hospital Supply, will cut 5,000 jobs, mainly in northern Illinois.

Dec 4 House and Senate create separate committees to investigate Iran arms deal. (See Nov 13.)

Dec 5 Unisys will close plants in Tennessee and Wisconsin. (See Sep 16.)

Dec 5 GM's Electro-Motive Division halts locomotive output in McCook, IL, because of low orders.

Dec 10 Trade deficit hit record \$37.7 billion in third quarter.

Dec 11 Federal Reserve Bank of New York adds five U.S. government securities firms, including two owned by Japanese banks, to its list of primary dealers.

Dec 15 Chemical New York Corp plans to acquire Texas Commerce Bancshares of Houston for \$1.2 billion, to become 4th largest commercial bank.

Dec 15 Henry Wallich resigns from Federal Reserve Board due to ill health, effective immediately.

Dec 16 RepublicBank of Dallas plans to acquire Interfirst of Dallas, to become 11th largest commercial bank.

Dec 18 Commerce Department survey projects business plant and equipment spending in 1987 to equal 1986. (See Sep 11.)

Dec 18 AT&T announces \$3.2 billion pre-tax charge for fourth quarter.

Dec 18 Delta Air Lines buys Western Air Lines for \$0.9 billion in cash and stock.

Dec 21 OPEC nations agree to cut oil output and sell at \$18 per barrel.

Dec 22 Interstate Oil Compact Commission (29 states) urges tariff on crude oil and products.

Dec 22 USDA reports hog inventory lowest in 10 years, cattle inventory lowest in 22 years.

Dec 23 Fruehauf Holdings, investor group, buys Fruehauf truck trailers for \$1.1 billion in cash and stock.

Dec 23 Federal Appeals Court rules that commercial paper operation of Bankers Trust is lawful, overruling district court which held such activities constitute security underwriting.

Dec 23 Honeywell buys Sperry Aerospace from Unisys for \$1.0 billion in cash.

Dec 24 UAL Inc will buy Hilton International hotel chain for 1 billion.

Dec 30 Exxon sells Reliance Electric for \$1.4 billion in cash.

Dec 30 Auto sales surge late in 1986 to beat loss of sales tax deductions and slower depreciation starting Jan 1.

Dec 30 New York State Banking Dept rules that state-chartered banks can underwrite corporate securities.

Dec 30 Exxon becomes 81st U.S. company to pull out of South Africa since 1984. (See Oct 20.)

Dec 30 Administration will impose heavy tariffs on EEC luxury exports if U.S. is not compensated for grain export loss resulting from Spain and Portugal entering EEC. (See Jan 1.)

Dec 31 Campeau buys Allied Stores for \$3.5 billion in cash.

Dec 31 Fire at DuPont Plaza Hotel in San Juan, PR, causes 96 deaths.

Dec 31 Dollar falls to low for year against the German mark.

NOTE: These events were gathered from many sources including: *Fortune* magazine, *The Wall Street Journal*, *World Almanac*, *Information Please Almanac* and other newspapers and trade journals.